

Page 1	Page 2
<p>1 October 7, 2003</p> <p>2 (9:05 a.m.)</p> <p>3 CHAIRMAN:</p> <p>4 Q. Thank you and good morning. Good morning, Ms.</p> <p>5 Newman, are there any preliminary matters</p> <p>6 before we get started?</p> <p>7 MS. NEWMAN:</p> <p>8 Q. No, Chair.</p> <p>9 CHAIRMAN:</p> <p>10 Q. Thank you. I have one. The Board, I guess,</p> <p>11 has made a final determination on the</p> <p>12 outstanding issue from the motion of last week</p> <p>13 and you may recall there were five issues</p> <p>14 before us. The Board decided on four of those</p> <p>15 with regard to their exclusion or inclusion</p> <p>16 into the hearing, and we did reserve on</p> <p>17 Newfoundland Power's request to exclude from</p> <p>18 the hearing, the consideration of the issue of</p> <p>19 Newfoundland Power's generation credit.</p> <p>20 We concluded that in P.U. 7, the Board</p> <p>21 addressed Hydro's treatment of Newfoundland</p> <p>22 Power's generation credit and the Industrial</p> <p>23 Customers interruptible B rate and accepted</p> <p>24 Hydro's treatment of both as proposed. In</p> <p>25 that order, the Board also directed Hydro to</p>	<p>1 file evidence in relation to the demand energy</p> <p>2 pricing issues raised. It is in this context</p> <p>3 that the issue of Newfoundland Power's</p> <p>4 generation credit arises in this hearing.</p> <p>5 However, the treatment of Newfoundland Power's</p> <p>6 generation and the design of an energy demand</p> <p>7 rate for Newfoundland Power are related issues</p> <p>8 requiring a complete review of the evidence</p> <p>9 before a determination can be made. The Board</p> <p>10 is also satisfied that the factual</p> <p>11 circumstances, including the capacity and</p> <p>12 configuration of the system, have changed</p> <p>13 sufficiently since, I think it was 1993 in the</p> <p>14 Cost of Service Study, such that a review of</p> <p>15 the treatment of the generation credit is</p> <p>16 appropriate at this time. Therefore, the</p> <p>17 Board will not exclude or limit consideration</p> <p>18 of the issue of Newfoundland Power's</p> <p>19 generation credit in this proceeding and</p> <p>20 Newfoundland Power's application of October</p> <p>21 1st is hereby denied.</p> <p>22 Good morning, Mr. Wells.</p> <p>23 MR. WELLS:</p> <p>24 Q. Morning.</p> <p>25 CHAIRMAN:</p>
Page 3	Page 4
<p>1 Q. Good morning, Mr. Browne. Are you -</p> <p>2 BROWNE, Q.C.:</p> <p>3 Q. Are you--I'll wait for you to finish your</p> <p>4 notes. When you're ready please.</p> <p>5 BROWNE, Q.C.:</p> <p>6 Q. Morning, Mr. Wells.</p> <p>7 MR. WELLS:</p> <p>8 Q. Good morning, Mr. Browne.</p> <p>9 BROWNE, Q.C.:</p> <p>10 Q. Mr. Wells, I want to ask you some further</p> <p>11 questions in reference to the rate</p> <p>12 stabilization plan and can we go for a moment</p> <p>13 to CA-17, please. And in your evidence</p> <p>14 yesterday, we made reference to the fact that</p> <p>15 you noted that there was an overwhelming</p> <p>16 preference for electricity as the energy</p> <p>17 source of choice for space heating in new</p> <p>18 construction. And in this question we asked,</p> <p>19 "why is this", and "would it be the case if</p> <p>20 Hydro had been charging customers the full</p> <p>21 cost of power, rather than accumulating oil</p> <p>22 costs in the RSP". And can you just read your</p> <p>23 answer into the record, please.</p> <p>24 A. "The preference for electric heat in new</p> <p>25 construction can be attributed to a number of</p>	<p>1 factors, including its low, initial capital</p> <p>2 cost and its maintenance free operating</p> <p>3 characteristic. Hydro would expect that a</p> <p>4 full price signal to consumers in recent years</p> <p>5 to have had a marginal impact on the</p> <p>6 penetration rate of electric heat in new</p> <p>7 construction."</p> <p>8 Q. Okay, just stop there. Why would Hydro expect</p> <p>9 that a full price signal would have a marginal</p> <p>10 impact on the penetration rate of electric</p> <p>11 heat in new construction?</p> <p>12 A. Because--well I haven't read the rest of the</p> <p>13 answer, but, in part, you have the issues of</p> <p>14 the immediate impact of fuel oil prices in</p> <p>15 that industry applying to consumers and gas at</p> <p>16 pumps. And then there was the issue of fuel</p> <p>17 storage. And, as I said yesterday, the</p> <p>18 convenience, the low capital cost, the reduced</p> <p>19 worry--there are no environmental concerns for</p> <p>20 the consumer at home with respect to electric</p> <p>21 heat, these things seem to be influencing the</p> <p>22 consumer preference. So there's money</p> <p>23 factors, environmental factors, ease of</p> <p>24 maintenance, a whole bunch of things combined,</p> <p>25 because what you have to wrestle with is the</p>

Page 5	Page 6
<p>1 MR. WELLS:</p> <p>2 fact that consumers have chosen that route in</p> <p>3 new construction.</p> <p>4 Q. But you say in your answer, besides the</p> <p>5 environmental concerns, that one of the</p> <p>6 reasons is the volatility in fuel due to high</p> <p>7 and volatile prices. Because people who heat</p> <p>8 their homes with oil are subject to that</p> <p>9 volatility aren't they. When the oil man</p> <p>10 comes to the door, they have to pay or are on</p> <p>11 an equal payment plan for the full year.</p> <p>12 A. That's right. Well that would be the same as</p> <p>13 electrical rates, the equal payment plan, but</p> <p>14 you do have to meet the price of the day, yes.</p> <p>15 Q. But you're not meeting the price--you're not</p> <p>16 allowing consumers to meet the price of the</p> <p>17 day in reference to their electricity costs</p> <p>18 due to the effect of the rate stabilization</p> <p>19 plan, isn't that true?</p> <p>20 A. Yes, but you have focused that question</p> <p>21 particularly on Hydro. The rate stabilization</p> <p>22 plan, as I understand it, was introduced and</p> <p>23 approved by the Board for the benefit of</p> <p>24 electrical consumers and to reduce volatility</p> <p>25 with respect to electrical rates as a result</p>	<p>1 of the volatility in oil prices and then there</p> <p>2 are the other factors. I mean the whole idea</p> <p>3 was to protect consumers, so I don't want to</p> <p>4 be presented here as an apologist for the rate</p> <p>5 stabilization plan in which we all</p> <p>6 participated setting up.</p> <p>7 Q. No, and granted, you're not the main</p> <p>8 protagonist here in reference to the rate</p> <p>9 stabilization plan, we're not suggesting that.</p> <p>10 I guess we're all party to the rate</p> <p>11 stabilization plan or the effects of it for a</p> <p>12 long period of time. However, wouldn't you</p> <p>13 grant me that by having a rate stabilization</p> <p>14 plan, you are in fact giving unfair advantage</p> <p>15 to those who sell electricity over those who</p> <p>16 sell oil to consumers because the electricity</p> <p>17 prices aren't fluctuating, whereas the oil</p> <p>18 industry is in a real market, those people are</p> <p>19 out there with Irving Oil or Imperial Oil or</p> <p>20 any of the others, have a real disadvantage in</p> <p>21 reference to dealing with the volatility and</p> <p>22 prices, wouldn't you grant me that?</p> <p>23 A. Yes, as a result of the rate stabilization</p> <p>24 plan.</p> <p>25 Q. In CA-84, we asked if Hydro has ever conducted</p>
Page 7	Page 8
<p>1 studies that assessed the impact of the rate</p> <p>2 stabilization plan and total consumption of</p> <p>3 number six fuel. And if so, please provide</p> <p>4 copies of the studies and your response in B</p> <p>5 is that no studies have been conducted, is</p> <p>6 that correct?</p> <p>7 A. Yes, that's correct.</p> <p>8 Q. Why would that be, considering the multi-</p> <p>9 million dollars that are owed with the rate</p> <p>10 stabilization plan, and the trouble its caused</p> <p>11 at least since 1996, why have no studies been</p> <p>12 done in reference to this particular issue?</p> <p>13 A. Well I will speak personally. I can only</p> <p>14 speak personally on that. Hydro has not</p> <p>15 considered such studies. We've had no</p> <p>16 discussion with respect to studying the impact</p> <p>17 of the rate stabilization plan on fuel</p> <p>18 consumption in that direct sense. I have to</p> <p>19 question your reference to 96. The issues</p> <p>20 with the rate stabilization plan really</p> <p>21 occurred after 2000 and the higher balance,</p> <p>22 which we attempted to correct in our last</p> <p>23 General Rate Application with the Board by</p> <p>24 getting the price to reflect, as best we</p> <p>25 could, the current circumstance. These events</p>	<p>1 have come on all of us relatively recently and</p> <p>2 on the forecast that we had provided to the</p> <p>3 Board with respect to oil prices in our last</p> <p>4 application and going forward when the Board</p> <p>5 set the rate at \$26 a barrel, roughly, we had</p> <p>6 thought and I'm sure the Commissioners and</p> <p>7 everybody participating at that time, that</p> <p>8 this plan would be more or less an</p> <p>9 equilibrium, that the balance outstanding</p> <p>10 going forward in the new plan would not be of</p> <p>11 concern to anybody, and that the, indeed,</p> <p>12 consumers starting off when the order was</p> <p>13 issued, would be getting the correct signal.</p> <p>14 I mean that's what we all thought and it was</p> <p>15 beyond any possibility of our predicting that</p> <p>16 the prices would go up to 45 or 48 dollars a</p> <p>17 barrel from September 1st last year through to</p> <p>18 March.</p> <p>19 (9:15 a.m.)</p> <p>20 To say then that somehow we should have</p> <p>21 had the foresight to conduct a study to see</p> <p>22 where consumers preferences are and get the</p> <p>23 message out to advert that, to me there was no</p> <p>24 basis, no justification for Hydro to take upon</p> <p>25 itself the idea that as of last September or</p>

Page 9	Page 10
<p>1 MR. WELLS:</p> <p>2 October or November, we should be conducting a</p> <p>3 study with respect to the rate stabilization</p> <p>4 plan, the higher oil prices and consumption of</p> <p>5 fuel at Holyrood.</p> <p>6 Q. Your statement that the problems with the rate</p> <p>7 stabilization plan only commenced in the year</p> <p>8 2000, on what do you base that, Mr. Wells?</p> <p>9 A. Well the issue that became of concern within</p> <p>10 Hydro is the fact that the price of fuel,</p> <p>11 which had been set at 12.50 in our rates, we</p> <p>12 were actually paying up in the 20s and</p> <p>13 sometimes 30. So the balance was creeping up.</p> <p>14 As I said yesterday in my evidence, that prior</p> <p>15 to our getting ready to prepare this</p> <p>16 application--or, the last rate application,</p> <p>17 some 18 months before, all this came to</p> <p>18 fruition last year in the order, we had been</p> <p>19 seeing reductions in the price of fuel. It</p> <p>20 had, indeed, for one brief period it went</p> <p>21 below 12.50 for the first time since 1992. So</p> <p>22 you have to judge the actions of everyone</p> <p>23 related to the conditions as they unfolded.</p> <p>24 And I can only repeat that last year when the</p> <p>25 Board issued the order, you know, and</p>	<p>1 indicating that \$26 would be the approved</p> <p>2 rate, or \$25.91, we felt that the issue of oil</p> <p>3 prices and the outstanding balances of the new</p> <p>4 rate stabilization plan were solved and to our</p> <p>5 consternation and everybody else's, oil prices</p> <p>6 last year in the fall, for a variety of</p> <p>7 reasons, skyrocketed.</p> <p>8 Q. Mr. Wells, in reference to the year 2000, can</p> <p>9 we go for a moment to CA-89, please. And CA-</p> <p>10 89 presents a chart of the annual balances in</p> <p>11 the RSPs since its inception.</p> <p>12 A. Yes.</p> <p>13 Q. And if we look at it, I guess, for the first</p> <p>14 few years there, it was always a positive, at</p> <p>15 least from 1988, to 1991. There seemed to be</p> <p>16 a lot of money in the plan itself, 32 million</p> <p>17 dollars, in the year 1989. But if you look</p> <p>18 after 1995, '96, '97, '98, '99 to the year</p> <p>19 2000, you see just the opposite, don't you?</p> <p>20 A. That's correct.</p> <p>21 Q. So, really, the problems with the RSP, the</p> <p>22 current problems commenced in 1995, wouldn't</p> <p>23 you state that?</p> <p>24 A. Well, you're correct. I hadn't had the</p> <p>25 advantage of this table rate in front of me</p>
Page 11	Page 12
<p>1 when I answered the last question, but if</p> <p>2 you'd look at it, please, it will indicate</p> <p>3 that while the balance started to rise, in</p> <p>4 '96, '97 and '98, in '99 and 2000, it started</p> <p>5 to drop. I mean it got back to the 35, 34</p> <p>6 million dollar range and then you can see the</p> <p>7 sort of precipitous jump in 2001. So I think</p> <p>8 that the tenor of my remarks to you earlier is</p> <p>9 correct, that the--and then we moved because</p> <p>10 in 2000 we had already made the decision and</p> <p>11 were starting to work on the application in</p> <p>12 2001 and in that period, where these numbers</p> <p>13 reflect, the price of fuel got down in the mid</p> <p>14 teens, and as I said, dropped once below</p> <p>15 12.50. So we also, when we filed the</p> <p>16 application and right up to the end of our</p> <p>17 evidence before the Commissioners in the last</p> <p>18 rate application, we had no reason to change</p> <p>19 our fuel forecast in terms of our consultants.</p> <p>20 You know the 29, or, I'm sorry, \$26 a barrel</p> <p>21 was what--we had suggested 20 and the Board</p> <p>22 more wisely put it at \$25.91. That was the</p> <p>23 fuel forecast that we were working on at that</p> <p>24 time.</p> <p>25 So, to come back to your original point,</p>	<p>1 why did we not undertake some studies about</p> <p>2 the consumption of fuel in Holyrood and the</p> <p>3 price of fuel and tell people to not buy</p> <p>4 electricity, I don't think there was a</p> <p>5 foundation in fact for that. And the other</p> <p>6 thing, as I mentioned yesterday, is it the</p> <p>7 obligation of Newfoundland and Labrador Hydro,</p> <p>8 to undertake a public campaign discouraging</p> <p>9 the use of electricity and space heating for</p> <p>10 residents of the community and does that</p> <p>11 impinge upon the rights of oil companies and</p> <p>12 retailers of electricity and, you know--I have</p> <p>13 difficulty with that concept, that that would</p> <p>14 be our function.</p> <p>15 Q. But whose responsibility would it be, Mr.</p> <p>16 Wells, if it's not yours?</p> <p>17 A. Well we are, as a Crown corporation,</p> <p>18 supplying, as sourcing electricity, we could</p> <p>19 advise the public of the impact of oil rates</p> <p>20 on electricity consumption, but you would ask</p> <p>21 us to directly interfere in the marketplace</p> <p>22 and influence. I think that it would be</p> <p>23 appropriate perhaps that, if we had a rate</p> <p>24 structure that reflected the consumption at</p> <p>25 retail and then consumers may get a clear</p>

Page 13	Page 14
<p>1 MR. WELLS:</p> <p>2 indication through rates, which I think would</p> <p>3 be more effective than any campaign that which</p> <p>4 we could undertake. And then if we put in a</p> <p>5 campaign, there'd probably be counter</p> <p>6 campaigns to that. And every dollar that we</p> <p>7 spend, and you don't allow us very much in</p> <p>8 your last representation when we looked for</p> <p>9 some publicity dollars, it was excluded. So</p> <p>10 where do we get the funds to carry out a great</p> <p>11 big campaign with the public to convince them</p> <p>12 not to use electric heat and compel them to</p> <p>13 put oil tanks in their back yard and take</p> <p>14 their chances.</p> <p>15 Q. In terms of direct interference in the</p> <p>16 marketplace, I guess an argument could be made</p> <p>17 that the rate stabilization plan is a form of</p> <p>18 direct interference in the marketplace, in</p> <p>19 true market conditions, wouldn't you grant me</p> <p>20 that, Mr. Wells?</p> <p>21 A. Yes, it is, in the same sense--you look at</p> <p>22 that in the same way that equal billing rates,</p> <p>23 that are put in for consumers for electricity</p> <p>24 and oil and other things, you know, to try to</p> <p>25 average out the price of the consumers paying</p>	<p>1 their monthly bills, all these things were</p> <p>2 designed, as I understand it, to help</p> <p>3 consumers and therefore, one shouldn't read</p> <p>4 more into the rate stabilization plan than</p> <p>5 what was intended. The fact is that it looks</p> <p>6 as though the price of fuel, while</p> <p>7 unpredictable is going to be unpredictable on</p> <p>8 the high side, in that sense. I mean we could</p> <p>9 have the rate stabilization plan going forward</p> <p>10 if the Board had set the rate in our last</p> <p>11 application at \$35 a barrel. We wouldn't have</p> <p>12 the big outstanding balance in the second</p> <p>13 plan. But you had no, absolutely no evidence</p> <p>14 to the Commissioners, nor was anybody</p> <p>15 advocating that the price should be set at \$35</p> <p>16 a barrel. In fact, that's what the price</p> <p>17 turned out to be, and we live with the</p> <p>18 consequence of that.</p> <p>19 Q. Are you aware then in the past when there was</p> <p>20 a surplus in the rate stabilization plan, if</p> <p>21 you look to the years '98 and '99--'98 and</p> <p>22 1989, we have surpluses there in the plan</p> <p>23 that, with the approval of the Board, money</p> <p>24 was used in that surplus for other purposes,</p> <p>25 other than the rate stabilization plan, have</p>
Page 15	Page 16
<p>1 you ever heard of that?</p> <p>2 A. I don't recall that, I don't recall anybody</p> <p>3 advising me of that. They maybe have and I've</p> <p>4 forgotten it but I'm not aware of it.</p> <p>5 Q. In reference to other utilities, I asked you</p> <p>6 this yesterday, can we go to CA-83, please.</p> <p>7 There we asked to provide a list of other</p> <p>8 utilities where there would be a rate</p> <p>9 stabilization plan or something comparable to</p> <p>10 what we have here, and I'm not going to get</p> <p>11 you to read the entire answer, but if you go</p> <p>12 to the schedule, page three of four, we get a</p> <p>13 synopsis and we see in Nova Scotia, Nova</p> <p>14 Scotia Power has no stabilization mechanism,</p> <p>15 yet you told us yesterday that Nova Scotia</p> <p>16 Power, they would be primarily a coal</p> <p>17 generator. Do you have any knowledge as to</p> <p>18 how Nova Scotia deals with a fluctuating price</p> <p>19 of coal?</p> <p>20 A. No, I have absolutely no knowledge -</p> <p>21 Q. These have never come up in your discussions</p> <p>22 with the Canadian Energy Council or with your</p> <p>23 cohorts in other provinces?</p> <p>24 A. No. And I mentioned coal yesterday, that's</p> <p>25 where Nova Scotia was their prime, and they're</p>	<p>1 also now, as you know, converting to gas. I</p> <p>2 assume in a jurisdiction like that, and it's</p> <p>3 only conjecture, that if they don't have fuel</p> <p>4 adjustment charges or rate stabilization plans</p> <p>5 or something of that nature, that they have a</p> <p>6 relatively stable cost situation, which is</p> <p>7 prevailing. I mean if we were all hydro, for</p> <p>8 argument's sake, we would not be talking about</p> <p>9 a rate stabilization plan.</p> <p>10 Q. Nova Scotia is not hydro at all.</p> <p>11 A. No, but in coal, I don't know the answer, I</p> <p>12 guess maybe they have--I think they now import</p> <p>13 their coal but volatility and coal prices,</p> <p>14 coal is relatively cheap now. It's in</p> <p>15 abundance and there's plenty available, so I</p> <p>16 doubt that there's much volatility in the</p> <p>17 price of coal, but I have no idea -</p> <p>18 Q. And has anyone at Hydro, over time, given all</p> <p>19 the discussion on this rate stabilization</p> <p>20 plan, ever approached Nova Scotia Power to</p> <p>21 determine how that commodity is acquired there</p> <p>22 and how they deal with fluctuations, to the</p> <p>23 best of your knowledge?</p> <p>24 A. The answer is no and nor would I think--I</p> <p>25 can't imagine why I would take that upon</p>

Page 17	Page 18
<p>1 MR. WELLS:</p> <p>2 myself in the last three or four years</p> <p>3 whatsoever.</p> <p>4 Q. And looking to other provinces, we see New</p> <p>5 Brunswick Power has nothing and Maritime</p> <p>6 Electric, another Fortis company, they have</p> <p>7 two adjustment mechanisms that have been in</p> <p>8 place since October 13, 2001. But if you look</p> <p>9 at it, you see April 1st of each year, there's</p> <p>10 one of the adjustment mechanisms, but we don't</p> <p>11 see anything like we have here where it goes</p> <p>12 on and on and on, do we?</p> <p>13 A. No, and as I said yesterday, Mr. Browne, we're</p> <p>14 not here to defend to death, the rate</p> <p>15 stabilization plan. This was a plan that was</p> <p>16 put in for the benefit of consumers. If it is</p> <p>17 now, for whatever reason, not in the best</p> <p>18 interest of consumers, then I suggest we all</p> <p>19 work together to come up with another</p> <p>20 situation. From a business perspective in</p> <p>21 Hydro, we're the--Hydro is at risk in the rate</p> <p>22 stabilization plan. We have in excess of a</p> <p>23 hundred million dollars outstanding, that we</p> <p>24 hope to collect from consumers because we've</p> <p>25 already burnt the fuel. If anything happened</p>	<p>1 to consumers or Industrial Customers, we have</p> <p>2 a fairly significant risk. So it would be</p> <p>3 logical to assume that Hydro would prefer to</p> <p>4 be pain when it supplies the product. And the</p> <p>5 reason we're not paid was an agreement to try</p> <p>6 to adjust things for consumers. So we're open</p> <p>7 to any suggestion with respect to dealing with</p> <p>8 the volatility of oil prices and deal with</p> <p>9 this what is now an emergent issue, emerging</p> <p>10 issue.</p> <p>11 Q. Just then moving to another topic, can we look</p> <p>12 at the Newfoundland and Labrador Hydro and</p> <p>13 Newfoundland Power coordination, which</p> <p>14 resulted in cost savings, can we go to CA-65,</p> <p>15 for a moment, please.</p> <p>16 A. Was that 65 you said or 50 -</p> <p>17 Q. 65, sir. And this Board has had evidence of</p> <p>18 previous hearings concerning the joint</p> <p>19 coordination and the various committees</p> <p>20 between Newfoundland and Labrador Hydro and</p> <p>21 Newfoundland Power and there's a report</p> <p>22 submitted to the Board on December 2002, which</p> <p>23 is familiar to most here. But I just want to</p> <p>24 go to what were the resultant savings that you</p> <p>25 have listed as a result of all these efforts,</p>
Page 19	Page 20
<p>1 and I guess these are all inclusive. The</p> <p>2 first saving is in the neighbourhood of</p> <p>3 \$10,000 you got for revenue meter testing</p> <p>4 services, where there's a contract to</p> <p>5 Newfoundland Power. Is that accurate,</p> <p>6 \$10,000, I guess it is?</p> <p>7 A. Well I'll stand behind Hydro, that's a Hydro</p> <p>8 answer, I'm behind it.</p> <p>9 Q. Fair enough. And item 2, you got Hydro,</p> <p>10 Newfoundland Power and PCB contamination,</p> <p>11 \$30,000. So after all these efforts we're up</p> <p>12 to 40,000. Then we go to the next page and</p> <p>13 there's an upgrading in the distribution</p> <p>14 system which was a capital savings of</p> <p>15 approximately 150,000, so that would be a one</p> <p>16 time savings, this one, would it be, Mr.</p> <p>17 Wells?</p> <p>18 A. That's correct.</p> <p>19 Q. So what does that give us? That gives us 40,</p> <p>20 that gives us 190 thousand. Then there's an</p> <p>21 agreement on sharing equipment and that's not</p> <p>22 quantifiable and there's an agreement on hot</p> <p>23 sticks, that's not quantifiable. And there's</p> <p>24 another agreement, a reference to providing</p> <p>25 services to what we spoke to yesterday,</p>	<p>1 Monkstown and Petit Forte. But when we look</p> <p>2 at it all, is this all that the committees</p> <p>3 have come up with considering Newfoundland</p> <p>4 Power has a capital budget of 60 million, an</p> <p>5 operating budget of hundreds of millions</p> <p>6 collectively over--and you guys collectively,</p> <p>7 you have it. I find it passing strange that</p> <p>8 after all this, this is all you can come up</p> <p>9 with, 10 thousand and 30 thousand and a one</p> <p>10 time thing of 150 thousand. Can you comment</p> <p>11 on that?</p> <p>12 (9:31 a.m.)</p> <p>13 A. Well I think that operationally, where there's</p> <p>14 an opportunity, that we do, in effect help</p> <p>15 each other, share services and personnel.</p> <p>16 These particular items, like we have the</p> <p>17 accredited meter shop and this is in Atlantic</p> <p>18 Canada, so they use that service that we have.</p> <p>19 I think that you have to look at the situation</p> <p>20 in the two utilities. I hear public comment</p> <p>21 that we're very similar and in my view, we are</p> <p>22 quite dissimilar utilities and different</p> <p>23 functions. Newfoundland Power is a retail</p> <p>24 distributor of electricity. We are in total,</p> <p>25 in Hydro, in the consolidated basis, the</p>

Page 21	Page 22
<p>1 MR. WELLS:</p> <p>2 fourth largest generator of electricity in the</p> <p>3 dominion of Canada, or Canada. We do have</p> <p>4 retail in the rural areas on the island. We</p> <p>5 operate completely discreet systems in terms</p> <p>6 of isolated diesel, and we operate on the</p> <p>7 Labrador Interconnected system which is not of</p> <p>8 issue between ourselves and Newfoundland Power</p> <p>9 for savings. There are limited, in our</p> <p>10 current set-up within the province of</p> <p>11 Newfoundland and Labrador, in my view, there</p> <p>12 are relatively limited opportunities to save</p> <p>13 significant dollars between Newfoundland Hydro</p> <p>14 and Newfoundland Power. You would have to</p> <p>15 change the responsibilities. For instance, if</p> <p>16 Newfoundland Power were to take over all</p> <p>17 distribution, would that be beneficial and</p> <p>18 what would be the result for consumers. But a</p> <p>19 major structural change like that would be a</p> <p>20 matter of public policy and not a decision</p> <p>21 between the two utilities, per se. And in</p> <p>22 terms of the operational aspects, you can't</p> <p>23 expect--Newfoundland Power's operational</p> <p>24 people this morning are out looking after</p> <p>25 their system. Hydro's are out looking after</p>	<p>1 their system. We have a brush against each</p> <p>2 other in a couple of areas in the province,</p> <p>3 but other than that, there's very little in</p> <p>4 terms of the physicalities of distributing</p> <p>5 electricity or generating it.</p> <p>6 Q. And with the report to the Board on the</p> <p>7 duplication of services in December 2002, that</p> <p>8 matter is now ended, there's no ongoing</p> <p>9 committees at Newfoundland Power and</p> <p>10 Newfoundland and Labrador Hydro to further</p> <p>11 that effort?</p> <p>12 A. The '98--no, there is not.</p> <p>13 Q. It's done, as far as you're concerned.</p> <p>14 A. There's nothing ongoing at the moment.</p> <p>15 Q. We move to the are of your controllable costs</p> <p>16 in CA-44, please. And, yesterday, you gave</p> <p>17 evidence that Hydro has reduced its workforce</p> <p>18 by 211 permanent positions from 1992 to 2002,</p> <p>19 which you stated was a 21 percent reduction.</p> <p>20 I'm sorry, that's a 21 percent reduction, yes,</p> <p>21 that's what I just stated. If we go to the</p> <p>22 controllable costs on salaries and fringe</p> <p>23 benefits commencing in 1996, and we see the</p> <p>24 salaries and fringe benefits at--I'm sorry,</p> <p>25 Mr. Wells, do you have it there?</p>
Page 23	Page 24
<p>1 A. Yes.</p> <p>2 Q. We see under "Salaries and Fringe Benefits" we</p> <p>3 have 56 million dollars in 1996 and it goes</p> <p>4 down to 51 million in 1997 and back up to 54</p> <p>5 million. And in 2000, 61 million and it's</p> <p>6 forecast to 64 million on the next page in</p> <p>7 2002 and 63 million in 2004. If there was a</p> <p>8 21 percent reduction in the workforce, how</p> <p>9 come we are seeing the salaries and fringe</p> <p>10 benefits rise in that fashion?</p> <p>11 A. What you're comparing, if you compare the 56</p> <p>12 million, 724, the 1996 total and we'll go to</p> <p>13 the 63,237 forecast for 2004, that would</p> <p>14 represent approximately a 7.5 percent increase</p> <p>15 in that salary package. And the first figure</p> <p>16 that you have to look at is the fact that in</p> <p>17 that period, inflation was over 19 percent.</p> <p>18 So that the salary costs that Hydro has</p> <p>19 incurred through that period and going</p> <p>20 forward, have not kept pace with inflation by</p> <p>21 a very substantial factor of 14 percent. And</p> <p>22 the reason for that is that there are not as</p> <p>23 many people employed. The second issue is,</p> <p>24 and it is my contention and Hydro's contention</p> <p>25 that the people that are employed with Hydro,</p>	<p>1 are paid competitive wages but we are by no</p> <p>2 means leading the pack either in our</p> <p>3 collective bargaining unit, wages, and in the</p> <p>4 compensation to those that are not in the</p> <p>5 collective bargaining unit. So that there has</p> <p>6 been obviously a substantial productivity gain</p> <p>7 here and a substantial savings to consumers in</p> <p>8 the wages and salaries.</p> <p>9 Q. Have you done any comparison with the</p> <p>10 reduction in the workforce that Newfoundland</p> <p>11 Power has put in place and their salary</p> <p>12 component?</p> <p>13 A. I'm aware of the manpower or personnel number</p> <p>14 for Newfoundland Power, not in absolute</p> <p>15 detail, but there has been a reduction in the</p> <p>16 complement, in the workforce of Newfoundland</p> <p>17 Power.</p> <p>18 Q. So your answer is that despite the 21 percent</p> <p>19 reduction is that it has to do with</p> <p>20 inflationary forces?</p> <p>21 A. Well, obviously, if people today were getting</p> <p>22 salaries, 1992 salaries in today, A, the</p> <p>23 lights would be out and I think we'd probably</p> <p>24 have a massive strike on our hands and B, it</p> <p>25 would be non-competitive, most of our good</p>

Page 25	Page 26
<p>1 MR. WELLS:</p> <p>2 people would have left. And, C, it wouldn't</p> <p>3 be right. So, you have to appreciate that as</p> <p>4 has come out earlier and yesterday in your</p> <p>5 questions, that there was a wage freeze at</p> <p>6 Hydro, we had to have a period of catch-up</p> <p>7 following the wage freeze to get competitive</p> <p>8 rates back and to satisfy the requirements of</p> <p>9 our bargaining unit personnel with respect to</p> <p>10 the peer comparison that they'd always enjoyed</p> <p>11 in the Atlantic Canadian utility industry.</p> <p>12 So, if you look at these factors, the</p> <p>13 explanation of total dollars is good. In</p> <p>14 effect, we are now producing more electricity,</p> <p>15 have more operations and doing it with less</p> <p>16 people through efficiency and productivity</p> <p>17 gains, taking advantage I must say, as well,</p> <p>18 of technology and changed circumstance.</p> <p>19 Q. I do have some other questions on controllable</p> <p>20 costs, but we're probably best to save those</p> <p>21 for your financial officer. My last</p> <p>22 questioning has to do with the dividends paid</p> <p>23 to the Provincial Government from Hydro and</p> <p>24 its regulated and non-regulated entities, and</p> <p>25 we'll find that in your evidence and the</p>	<p>1 report of March 2003 that's an appendix to</p> <p>2 that evidence. This is in Schedule 2, Mr.</p> <p>3 O'Reilly. And we'll see in page two of seven,</p> <p>4 there's a table there, Mr. O'Reilly, in March</p> <p>5 2003, I think the next page. Yes, there you</p> <p>6 go.</p> <p>7 We see there are dividends paid out over</p> <p>8 time, commencing in 1995. Were dividends paid</p> <p>9 out prior to 1995?</p> <p>10 A. No, they weren't.</p> <p>11 Q. And in 2002, there was a large dividend paid</p> <p>12 out of \$65 million. Can you explain that?</p> <p>13 A. That was a dividend requested by the</p> <p>14 shareholder. It was a special dividend and</p> <p>15 the Board of Directors of Hydro, at the</p> <p>16 request of the shareholder, in reviewing their</p> <p>17 circumstance, approved the payout of the</p> <p>18 dividend.</p> <p>19 Q. And has there been any request for the year</p> <p>20 2003?</p> <p>21 A. In the last budget, there was no provision in</p> <p>22 the budget of Government to take any dividend</p> <p>23 from Hydro's regulated activity.</p> <p>24 Q. And what about it's non-regulated?</p> <p>25 A. Well, that's a standing--the export sales and</p>
Page 27	Page 28
<p>1 the returns from CF(L)CO automatically pass</p> <p>2 through, in the case of CF(L)CO, since 1974,</p> <p>3 and in the case of the export sales, since</p> <p>4 that contract came into effect in 1998.</p> <p>5 Q. Now the dividend policy, since 1995, and the</p> <p>6 fact that you're paying out money to the</p> <p>7 Provincial Government by way of dividends, is</p> <p>8 that one of the drivers behind this</p> <p>9 application, whereby you're seeking a rate of</p> <p>10 return of 9.75 percent?</p> <p>11 A. No, it has absolutely no relevance to that</p> <p>12 issue.</p> <p>13 Q. But some of the money that you would get,</p> <p>14 should you be given a 9.75 percent, it would</p> <p>15 be in a profit. Would that enable the</p> <p>16 Government to get further dividends from</p> <p>17 Hydro?</p> <p>18 A. The Government, as shareholder, is in a</p> <p>19 position to take out retained earnings in the</p> <p>20 form of dividends. Whether they do or not is</p> <p>21 a matter for Government and a matter for the--</p> <p>22 well, the Hydro Board has policies as well. I</p> <p>23 might add that in the overall, while if you</p> <p>24 look at that table, the percents that were</p> <p>25 taken out by Government, only in two</p>	<p>1 incidents, are they greater than the Board</p> <p>2 policy of 75 percent of net income, up to 75</p> <p>3 percent of net income being paid out as</p> <p>4 dividends, and in total, the Government, since</p> <p>5 the inception of Hydro, I think the dividends</p> <p>6 taken from retained earnings are in the order</p> <p>7 of 35 percent, I think the figure would be, if</p> <p>8 you looked at the total history of Hydro and</p> <p>9 the payment of dividends. If I'm wrong on</p> <p>10 that, I will check my numbers in the briefcase</p> <p>11 and come back. I think it's about 35 percent.</p> <p>12 Q. And is that reasonable in your estimation or</p> <p>13 unreasonable? What's the message here?</p> <p>14 A. The dividends that are paid by Hydro, you</p> <p>15 know, are to Government reflecting its</p> <p>16 investment in Hydro, go to the benefit of all</p> <p>17 the people of the Province of Newfoundland and</p> <p>18 Labrador, so I mean, it goes into Government</p> <p>19 current revenue. I can't think of probably be</p> <p>20 a more equitable way to distribute it than</p> <p>21 that.</p> <p>22 (9:44 a.m.)</p> <p>23 Q. Thank you, Mr. Wells. These are our</p> <p>24 questions.</p>

Page 29

Page 30

1 CHAIRMAN:
2 Q. Thank you, Mr. Browne. Thank you, Mr. Wells.
3 We'll move now to cross-examination by
4 Newfoundland Power. Good morning, Mr. Kelly.
5 KELLY, Q.C.:
6 Q. Thank you, Mr. Chairman. Mr. Chairman, before
7 I begin, there are two documents to be entered
8 into the record: the Quarterly Regulatory
9 Reports for Newfoundland Hydro for March 31st,
10 2003 and June 30th, and I've provided copies
11 of those to the Clerk. I'd ask that they be
12 marked as the first exhibits. Do you wish to
13 assign exhibit numbers to those, Mr. Chairman?
14 MS. NEWMAN:
15 Q. WW No. 1 will be the Quarterly Report for the
16 period March 31, 2003.
17 CHAIRMAN:
18 Q. What was that again, Ms. Newman, I'm sorry?
19 MS. NEWMAN:
20 Q. WW-1.
21 CHAIRMAN:
22 Q. WW-1.
23 EXHIBIT ENTERED ON HEARING AND MARKED EXHIBIT WW NO. 1
24 MS. NEWMAN:
25 Q. And WW-2 will be the report for the period

ended June 30th, 2003.
2 EXHIBIT ENTERED ON HEARING AND MARKED EXHIBIT WW NO. 2
3 BROWNE, Q.C.:
4 Q. Can you repeat those numbers, please?
5 MS. NEWMAN:
6 Q. WW No. 1 for March 31, 2003 and WW No. 2 for
7 June 30th, 2003.
8 CHAIRMAN:
9 Q. Thank you. When you're ready, Mr. Kelly.
10 KELLY, Q.C.:
11 Q. Thank you, Mr. Chairman. Good morning, Mr.
12 Wells.
13 A. Good morning.
14 Q. Mr. Wells, you've now been president and CEO
15 of Hydro for approximately seven years, since
16 1996, correct?
17 A. That's correct.
18 Q. And I take it during that period, you've
19 become familiar with Hydro's annual
20 forecasting of revenue and expenses and how
21 that works?
22 A. Yes.
23 Q. And would you agree with me that Hydro's
24 forecasting would have two basic purposes:
25 number one, you would have forecasting for

Page 31

Page 32

1 Hydro's internal purposes on a yearly basis;
2 and secondly, you would have forecasting for
3 test year purposes for rate setting purposes?
4 Agree with that?
5 A. Yes, that's correct.
6 Q. And would you also agree that accurate
7 forecasting plays a key role in setting the
8 revenue requirement and then resulting
9 electricity rates?
10 A. That's correct.
11 Q. Okay. Now I'd like to start by asking you to
12 explain for us how the annual forecasting
13 process works at Hydro, and in addressing
14 that, could you explain to the Board when that
15 process takes place? And at this stage, I
16 will focus on a non-test year time frame.
17 A. The first part of the process would be the
18 determination or forecasting of the load that
19 would be required to be served in the ensuing
20 period, in which case that on the Island
21 Interconnected system, the forecast is
22 involved with dealing with our Industrial
23 customers and Newfoundland Power, and based on
24 the results or the information received from
25 our Industrial Customers and Newfoundland

1 Power, we then combine that with our old
2 forecast with respect to the customers that we
3 have on the system, our retail customers on
4 the Island Interconnected system and if--Mr.
5 Kelly, you want to stick to just the Island
6 Interconnected?
7 Q. That's fine.
8 A. That would be fine. Well then, from a
9 combination of these, but by far the greatest
10 influence being the issue of what our
11 Industrial Customers will require and what
12 Newfoundland Power will require, and we also
13 look at the economic situation and whatnot,
14 but the greatest influence on our load
15 forecast is really the requirements of our
16 major customers.
17 Q. Okay. So that would give you your load
18 forecast and I take it from that you would
19 work out what your fuel oil requirements would
20 be and things of that nature?
21 A. Yes, we would make a determination based on a
22 storage levels and the management of our
23 reservoirs, what one would anticipate with
24 respect to the sources of supply individually,
25 what Hydro will generate for us and what the

Page 33

1 MR. WELLS:
 2 Holyrood thermal plant can supply. So we
 3 review our sources of supply related to the
 4 load requirement and factoring in the
 5 particular information with respect to
 6 hydrology and to make sure that we have the
 7 most efficient dispatch of power.
 8 Q. And then you'd also look at your operating
 9 costs and factor that into your forecast then
 10 of revenue and expenses?
 11 A. That is correct.
 12 Q. Now when do you do that for your planning
 13 purposes for the coming year? So if we look
 14 at 2003, the year we're in, when would you
 15 have done that, for example, to prepare a
 16 forecast for 2003?
 17 A. That would have started early in 2002 and
 18 would be brought to a point, in terms of the
 19 operating budget, where everything would come
 20 together for a first review would be
 21 approximately around June in the year when say
 22 the management committee of Hydro and others
 23 meet on the overall picture for our operating
 24 budget, and from there on, it would be refined
 25 until concluded.

Page 35

1 actuals and a 2003 estimate, and also a 2004
 2 forecast. There are some other columns, but
 3 those are the ones I want to have you look at.
 4 The 2003 estimate, which is the year we are
 5 currently in, when was this estimate prepared?
 6 And just to help you, your application was
 7 filed in May.
 8 A. This estimate would have--well, obviously it
 9 had to be concluded just before filing.
 10 Q. Yes, and I'm wondering how much prior to--I
 11 think it was May 12th or mid May that your
 12 application was filed. How much before that
 13 would you have come up with this 2003
 14 estimate?
 15 A. It would be certainly in the order of April or
 16 not later than mid April.
 17 Q. Okay. So a month or so before?
 18 A. Because it takes at least that three weeks,
 19 even after we got every I and T dotted and
 20 crossed to get the application physically in
 21 hand, you know.
 22 Q. Okay. Now -
 23 A. And Mr. Roberts could obviously give a better
 24 answer in terms of the preciseness, but it
 25 would have to be mid April.

Page 34

1 Q. Okay. So it would be refined then from June
 2 to--would it be refined to December, so that
 3 at some point you have a forecast against
 4 which you will test your operations, so to
 5 speak, in the following year, to judge
 6 yourself?
 7 A. Do we have a record--I'm sorry, could you just
 8 -
 9 Q. In other words, you prepare your forecast in
 10 June, and at some stage, do you have a
 11 finalized 2003 forecast, sometime before the
 12 beginning of 2003?
 13 A. Oh yes.
 14 Q. And then you analyze your performance against
 15 that during the coming year?
 16 A. Ensuing year, yes.
 17 Q. Ensuing year?
 18 A. Yes.
 19 Q. Exactly. That's what I thought. Now can I
 20 take you next to Schedule 2 to Mr. Roberts'
 21 testimony, which is the forecast revenue
 22 requirements, including 2002 through to 2004.
 23 Do you have that? There we go. Now on this
 24 particular document, Mr. Roberts has set out
 25 the 2002 final test year requirement, 2002

Page 36

1 Q. That's precise enough for the purpose that I
 2 want to explore with you. Can I next get you
 3 to go to your March 31st regulatory report?
 4 And I'll take you to Tab 2, to page three.
 5 There you go. Now if you go over to the last
 6 column, you have an annual forecast there.
 7 That would be the annual forecast that you
 8 described earlier, prepared sometime before
 9 the end of 2002?
 10 A. Yes.
 11 Q. Okay. And if I get you to go to the bottom
 12 line of that, your net operating forecast -
 13 A. I'm sorry, that--when we are preparing, as we
 14 go through a year, we have our budget and then
 15 we have a forecast, annual forecast, which
 16 starts to show the variables that are
 17 occurring as we progress through the year.
 18 Q. Yes.
 19 A. So at various times, you will see the budget
 20 for 2003 and the forecast for 2003 as the
 21 information unfolds throughout the year.
 22 Q. Okay. You have -
 23 A. I would think, and Mr. Roberts would--but in
 24 the Quarterly Report to the Board, we're
 25 forecasting as of that point in time, whenever

Page 37	Page 38
<p>1 MR. WELLS:</p> <p>2 this was prepared for submission to the Board.</p> <p>3 Q. Okay. Well, this is your March 31 -</p> <p>4 A. For the period ending March 31st, yes.</p> <p>5 Q. Okay. Well, I get a little puzzled because</p> <p>6 that shows a projected loss of 8.163 million,</p> <p>7 and if we just scroll back to Mr. Roberts'</p> <p>8 Schedule 2 for a moment, it a projected loss</p> <p>9 of 7.8 million in April. Do you see that, in</p> <p>10 the bottom of -</p> <p>11 A. Yes.</p> <p>12 Q. - the 2003 estimate?</p> <p>13 A. There's a difference in the two numbers.</p> <p>14 Q. Yes.</p> <p>15 A. By \$300,000.</p> <p>16 Q. Okay. Let me take you back now or take you to</p> <p>17 the next document, which is the 2000 June</p> <p>18 30th, to the same equivalent table. Next</p> <p>19 page, couple of pages, one more page. There</p> <p>20 we go. No, gone too far. Now in that one,</p> <p>21 this is as of June 30th, you're showing a</p> <p>22 forecast and loss of 8.3 million.</p> <p>23 A. Yes.</p> <p>24 Q. I'm wondering if you can help us understand</p> <p>25 the numbers, because we go from 8.1 which is a</p>	<p>1 forecast, 7.8 which is a forecast, and 8.3</p> <p>2 which is a forecast.</p> <p>3 A. Yes, and each prepared at a different time and</p> <p>4 based on the information then available.</p> <p>5 Q. Okay. So you're saying your forecast changes</p> <p>6 during the year for the year that you're in?</p> <p>7 A. The forecast for the--well, it's just</p> <p>8 terminology, so we understand what we're</p> <p>9 talking about here. We have an annual budget</p> <p>10 and we go through the year with the budget,</p> <p>11 you know, just normal managerial financial</p> <p>12 review, when you have your budget, then you</p> <p>13 have your actuals and you have your forecast,</p> <p>14 because if circumstances change, in April we</p> <p>15 see that, for instance, the price of fuel is</p> <p>16 going higher or some other factor, then we</p> <p>17 will change our forecast for the year and we</p> <p>18 will have a column showing the forecast. So</p> <p>19 we have our budget, our actuals to date and</p> <p>20 then you also have a column that's forecasting</p> <p>21 changes that are taking place during the year,</p> <p>22 as the evidence becomes available.</p> <p>23 Q. So you would modify that, what I'd call,</p> <p>24 December forecast for a variable like change</p> <p>25 in fuel prices?</p>
Page 39	Page 40
<p>1 A. We start--I'm sorry, the January, in our</p> <p>2 regular year, starts with a budget.</p> <p>3 Q. Yes.</p> <p>4 A. And then you have comparative figures that</p> <p>5 emerge from actual to budget and then we are</p> <p>6 forecasting what the final budget, you know,</p> <p>7 the year-end figures may look like compared to</p> <p>8 budget, and that's just a normal process in a</p> <p>9 normal year. What we're dealing with here,</p> <p>10 because we are regulated on forecast as</p> <p>11 required by the legislation, forecasted costs</p> <p>12 and setting the rate base, the forecast that</p> <p>13 is truly, I guess, one would say, a forecast</p> <p>14 of what is thought to be the most likely</p> <p>15 events that will occur in the ensuing year,</p> <p>16 and in this case, I would think that the facts</p> <p>17 and figures that we had available to us</p> <p>18 certainly by mid April would have been the</p> <p>19 cut-off period and we were projecting forward</p> <p>20 in mid April of 2002 what the 2003--I'm sorry,</p> <p>21 for the 2004, what would be the basis of our</p> <p>22 filing.</p> <p>23 Q. But I want to focus on the 2003 column to</p> <p>24 start off, so I understand this.</p> <p>25 A. Yes.</p>	<p>1 Q. Just stay with me now on the June 30th</p> <p>2 regulatory table that we've got on the screen</p> <p>3 there, and you'll see the first three columns</p> <p>4 have year to date performance. You've got</p> <p>5 2003 actual, 2003 forecast and then a 2002</p> <p>6 actual for a year to date basis. So that</p> <p>7 would give you six months performance. And if</p> <p>8 I go down through your 2003 forecast, which</p> <p>9 is, as I understand it, what Hydro forecast to</p> <p>10 the end of June 2003, and I look at your</p> <p>11 revenue, you had forecasted revenue of 177</p> <p>12 million, but you actually derived revenue of</p> <p>13 180 million. So your revenue was up by about</p> <p>14 three million dollars, correct?</p> <p>15 (10:00 a.m.)</p> <p>16 A. That is correct.</p> <p>17 Q. Okay. And then if I come down through your</p> <p>18 expenses, you had forecast expenses of \$ 171</p> <p>19 million, 171.8, and they came in, in the first</p> <p>20 six months of 167.8.</p> <p>21 A. 168, you've been rounding up.</p> <p>22 Q. Sorry, 168, roughly three million dollars in</p> <p>23 the difference.</p> <p>24 A. That's right.</p> <p>25 Q. Okay. So when you go to your net operating</p>

Page 41	Page 42
<p>1 KELLY, Q.C.:</p> <p>2 income at your bottom line, you had forecast</p> <p>3 5.4 million where you anticipated to be at the</p> <p>4 end of June, but your actual performance is</p> <p>5 12.2 or three million, correct?</p> <p>6 A. That's correct.</p> <p>7 Q. Okay. Now that forecast performance on your</p> <p>8 bottom line is \$6,832,000 and it's 125 percent</p> <p>9 over forecast for your first three months,</p> <p>10 sorry, for your first six months, is it not?</p> <p>11 A. Yes, that's what the figure said.</p> <p>12 Q. Yes.</p> <p>13 A. Now just scroll back with me to your March</p> <p>14 statement again. Now in March, if I go right</p> <p>15 to the bottom line again, you had been</p> <p>16 forecasting \$8 million and you ended up at</p> <p>17 12.6. So in simple round numbers here,</p> <p>18 approximately \$4 million better off than what</p> <p>19 you anticipated to be in March, correct?</p> <p>20 A. That's correct.</p> <p>21 Q. Okay. And so if we go back to June, that has</p> <p>22 now improved further again, so after six</p> <p>23 months performance, you are \$6.8 million</p> <p>24 better off than what you forecast to be for</p> <p>25 the first six months of 2003?</p>	<p>1 A. That's correct.</p> <p>2 Q. Okay. Now that strikes me as a major change</p> <p>3 in your forecast for 2003, is it not?</p> <p>4 A. No. I'm waiting for--you're going to ask me</p> <p>5 eventually what's the explanation.</p> <p>6 Q. Well, perhaps, why don't you give us the</p> <p>7 explanation?</p> <p>8 A. Well, it's quite simple. In 2003, if you look</p> <p>9 at our energy sales -</p> <p>10 Q. Yes.</p> <p>11 A. - compared to forecast, we had the actual in</p> <p>12 the--which book have I--let's take March. Our</p> <p>13 forecast for energy sales was 101,762.</p> <p>14 Q. Yes.</p> <p>15 A. And we achieved 106,283.</p> <p>16 Q. Yes.</p> <p>17 A. Against our budget over on the right there,</p> <p>18 the annual forecast. So what happened is, if</p> <p>19 you might recall, that January and February</p> <p>20 and even March of 2003 were extremely cold and</p> <p>21 there was higher sales. Like Newfoundland</p> <p>22 Power would have had higher sales and we</p> <p>23 produced more electricity and sold more</p> <p>24 electricity to meet the demand than we had put</p> <p>25 in our budget, which was based on the</p>
Page 43	Page 44
<p>1 information that we had received from</p> <p>2 Newfoundland Power and from our Industrial</p> <p>3 Customers in the first instance. So the</p> <p>4 revenues were higher. Now let's look at the</p> <p>5 expense side and operations.</p> <p>6 Q. Before you go on to expenses, Mr. Wells,</p> <p>7 because I do want to go there, just go back to</p> <p>8 the June one and pick up your first point,</p> <p>9 because I have a question that kind of flows</p> <p>10 out of that. I understand that you say the</p> <p>11 revenue is up, but go down and have a look at</p> <p>12 your columns for fuels and purchased power.</p> <p>13 Your fuels and purchased power expense -</p> <p>14 A. In March?</p> <p>15 Q. No, in June, because we'll take it with the</p> <p>16 most up-to-date information we have. Your</p> <p>17 fuels and purchased power expense are right on</p> <p>18 the money. They're out by about \$100,000 but</p> <p>19 that's small potatoes here in the scheme of</p> <p>20 things. So while you generated three million</p> <p>21 more dollars in revenue, you did it without</p> <p>22 expending more money for fuel or purchased</p> <p>23 power, correct?</p> <p>24 A. I have to think about that one, because the</p> <p>25 issue of the rate stabilization plan comes in,</p>	<p>1 and our energy sales are up. We're buying</p> <p>2 more oil to produce in Holyrood, so we're</p> <p>3 getting \$26 a barrel in the rates. The extra</p> <p>4 is going into the rate stabilization plan. So</p> <p>5 the numbers should--26 is it.</p> <p>6 Q. But in terms of Hydro's bottom line, because</p> <p>7 if it goes into the rate stabilization plan,</p> <p>8 that's a charge, in essence, to the future.</p> <p>9 In terms of Hydro's bottom line for 2003, you</p> <p>10 end up with three million dollars more</p> <p>11 revenue, correct, if this trend were to</p> <p>12 continue throughout the year?</p> <p>13 A. That's correct, but there's still an element</p> <p>14 here--I'm not trying to be evasive, but I'm</p> <p>15 trying to be cautious, because if you wanted</p> <p>16 to take this with Mr. Roberts, then you'd have</p> <p>17 a really direct answer on this, but I'll do my</p> <p>18 best.</p> <p>19 Q. Okay, that's fine.</p> <p>20 A. Because the issue of the numbers to which you</p> <p>21 refer in your questioning are forecasting and</p> <p>22 are results. The answer is to be found in the</p> <p>23 expenses, because you'll note that the</p> <p>24 expenses from actual will always lead the</p> <p>25 forecast, and that's a delay, the work is</p>

Page 45	Page 46
<p>1 MR. WELLS:</p> <p>2 undertaken, things are done and there's a lag</p> <p>3 before the expenses come in. So while it</p> <p>4 looks--and from my position, I take no comfort</p> <p>5 that we're up on our profits, so to speak, or</p> <p>6 our income in June because I know before the</p> <p>7 end of the year, all that's going to come out</p> <p>8 when the expenses all roll in and are recorded</p> <p>9 and you get more back to your budget position.</p> <p>10 Q. But you forecast your expenses surely knowing</p> <p>11 what the timing of those would be, so that if</p> <p>12 your expenses, which are down, for example</p> <p>13 your net operating down for June is down from</p> <p>14 44.4 to 41.7, correct?</p> <p>15 A. Yes, you can see there's a difference there,</p> <p>16 but that operating expense, believe me, and</p> <p>17 I've got the seven years you talked about</p> <p>18 experience, that's going to come even.</p> <p>19 Q. You think that'll come even?</p> <p>20 A. Damn close to it.</p> <p>21 Q. Okay. Well, let me just back you up a little</p> <p>22 bit then to--and this will stay in the 2003</p> <p>23 one, but just go back to the first page of</p> <p>24 that Tab 2, Mr. O'Reilly.</p> <p>25 A. Schedule 2?</p>	<p>1 Q. And if you--no, that's it. There you go. And</p> <p>2 if you go down, you'll see in the explanation</p> <p>3 to the Board in your quarterly report, under</p> <p>4 "revenue" you say "revenue sales for the year</p> <p>5 was 180 million, 2.9 million higher than</p> <p>6 forecast" and expenses, "year-to-date expenses</p> <p>7 amounted to 167.9 million, a decrease of four</p> <p>8 million from the forecast. The main variance</p> <p>9 are the decrease in fuels, 4.4 million, net</p> <p>10 operating costs 2.7 million," et cetera.</p> <p>11 There's nothing in the explanation to the</p> <p>12 Board that indicates that this is merely any</p> <p>13 kind of timing issue, is there?</p> <p>14 A. No, it just says net operating expenses, 2.7</p> <p>15 million.</p> <p>16 Q. Yes.</p> <p>17 A. That's the timing issue to which I referred.</p> <p>18 Q. But there's nothing in there that says it's a</p> <p>19 2.7 million timing issue. It says your main</p> <p>20 variances are the decrease of 2.7 million</p> <p>21 dollars, correct?</p> <p>22 A. It's a statement of the figure, not an</p> <p>23 explanation, if you want, but that is the</p> <p>24 rationale.</p> <p>25 Q. Now -</p>
Page 47	Page 48
<p>1 A. That is the reasoning behind that, but this</p> <p>2 just records the differences and the</p> <p>3 explanation and the variance and it's all</p> <p>4 explained in the note.</p> <p>5 Q. Well, let me ask you this question. Does</p> <p>6 Hydro have--because the table in the June 30th</p> <p>7 regulatory report does not contain a breakdown</p> <p>8 of your net operating costs for the June 30th</p> <p>9 period. Would Hydro have that breakdown in</p> <p>10 the same form as Mr. Roberts has it in</p> <p>11 Schedule 2, for June 30th? I assume you track</p> <p>12 these things monthly?</p> <p>13 A. Yes.</p> <p>14 Q. So you -</p> <p>15 A. Which--are you at March or June now?</p> <p>16 Q. If I take the format that -</p> <p>17 A. June 30th?</p> <p>18 Q. - that Mr. Roberts has in his schedule, he has</p> <p>19 a breakdown of the other costs, the net</p> <p>20 operating costs broken out into ten or twelve</p> <p>21 categories. My question, my point to you is</p> <p>22 that the June 30th regulatory report does not</p> <p>23 have that broken out.</p> <p>24 A. No.</p> <p>25 Q. And I'm asking whether Hydro has that broken</p>	<p>1 out for June 30th.</p> <p>2 A. But the issue on the operating costs are that</p> <p>3 the costs have not come in and you have to</p> <p>4 wait for the costs to come in and be recorded</p> <p>5 by the financial department, so they can</p> <p>6 prepare their result, based on the actuals</p> <p>7 that they have. So we know that there's a</p> <p>8 delay in getting all the bills in and the</p> <p>9 costs recorded against the activity, and</p> <p>10 that's all that that is.</p> <p>11 Q. Well, I hear you saying that, but with due</p> <p>12 respect, the Board has to test the expenses</p> <p>13 and so if you have the breakdown for the end</p> <p>14 of June, we would at least be able to see what</p> <p>15 the components are that have varied in that</p> <p>16 2.7 million dollar operating expense.</p> <p>17 A. Within net operating?</p> <p>18 Q. Yes.</p> <p>19 A. I think that you should ask Mr. Roberts that</p> <p>20 question, how is that realistically possible</p> <p>21 that we can give a--we can show within the net</p> <p>22 operating figures, if he can provide the</p> <p>23 detail that you're suggesting. At my level,</p> <p>24 that is--see, the relevance of this, in terms</p> <p>25 of quarterly, the interim reports to the Board</p>

Page 49	Page 50
<p>1 MR. WELLS:</p> <p>2 outlining how we're doing as we progress</p> <p>3 through the year always couched by the fact</p> <p>4 that, on the very right-hand column, you're</p> <p>5 getting the annual forecast compared to</p> <p>6 budget, which is the trigger for the Board in</p> <p>7 assessing how we're doing, and the variances</p> <p>8 that they would see in all these reports</p> <p>9 coming through, because they're all exactly</p> <p>10 the same in terms of format, and then if we</p> <p>11 feel that something is going to change</p> <p>12 completely, we revise our annual forecast, you</p> <p>13 know, within the year. So you know, the</p> <p>14 difference in the figures here are clearly</p> <p>15 related to the lag in the net operating</p> <p>16 expenses.</p> <p>17 Q. Well, but if I look at that table, clearly</p> <p>18 from what is being shown on the table, your</p> <p>19 bottom line position is 6.8 million dollars</p> <p>20 better than what was forecast to the end of</p> <p>21 June, and what I'm trying to understand is</p> <p>22 that there is at least the potential that that</p> <p>23 may continue through the end of 2003, and if</p> <p>24 your forecast is off that much for the first</p> <p>25 six months of 2003, what's the impact for</p>	<p>1 2004. Now I appreciate that you, as the CEO,</p> <p>2 may not be able to answer that question for</p> <p>3 me, but if you can at least provide for us the</p> <p>4 breakdown to the end of June and perhaps that</p> <p>5 breakdown of operating expense, if it is</p> <p>6 available, for July and August. I doubt your</p> <p>7 September numbers would be there yet. Then we</p> <p>8 would at least be able to see the information</p> <p>9 to date.</p> <p>10 GREENE, Q.C.:</p> <p>11 Q. Excuse me, Mr. Chair, not to interrupt in the</p> <p>12 middle of cross-examination, but it is</p> <p>13 relevant to the point. Hydro had advised the</p> <p>14 other parties that it is preparing a revised</p> <p>15 revenue requirement for 2004, to bring actuals</p> <p>16 to the end of August, and with an updated load</p> <p>17 forecast and an updated price of No. 6 fuel.</p> <p>18 We anticipate filing that revised revenue</p> <p>19 requirement, as we did during the last</p> <p>20 hearing, around the end of this month,</p> <p>21 depending on all of the information coming in,</p> <p>22 and as you know, reiterated through the cost</p> <p>23 of service process. So we will be filing</p> <p>24 updates of all of these to the end of August,</p> <p>25 with the forecast for the remaining part of</p>
Page 51	Page 52
<p>1 the year, which would address some of the</p> <p>2 issues as Mr. Kelly as just referred to. So</p> <p>3 we will be filing a revised revenue</p> <p>4 requirement in the form of JCR Schedule 2 for</p> <p>5 actuals to the end of August.</p> <p>6 (10:15 a.m.)</p> <p>7 KELLY, Q.C.:</p> <p>8 Q. The difficulty I have, Mr. Chairman, and if</p> <p>9 you just put NP-233 on the screen, we'll see</p> <p>10 that the Board--Hydro indicates that they will</p> <p>11 refile on October 31st, but if in fact we have</p> <p>12 a major change in forecasting and a major</p> <p>13 change in revenue and expense, by the time we</p> <p>14 get to the end of October, Mr. Wells will be</p> <p>15 gone off the stand, Mr. Roberts, the CFO, will</p> <p>16 be gone off the stand, Mr. Haynes, the</p> <p>17 production man, will be gone off the stand,</p> <p>18 and Mr. Martin, the transmission man, will be</p> <p>19 gone off the stand. So in order to test the</p> <p>20 numbers, if I am to examine these witnesses</p> <p>21 and other counsel are to examine these</p> <p>22 witnesses, the best documentation, the best</p> <p>23 information that Hydro has available surely is</p> <p>24 going to need to be produced now, since the</p> <p>25 witnesses will be gone by the time we get the</p>	<p>1 updated information. And -</p> <p>2 GREENE, Q.C.:</p> <p>3 Q. Well, as we have done before, our intent would</p> <p>4 be, if there is a significant change, we are</p> <p>5 prepared to call Mr. Roberts, and if any of</p> <p>6 the other parties wish to recall any witness,</p> <p>7 well of course, that's satisfactory as well.</p> <p>8 I can also advise, from our preliminary review</p> <p>9 of the operating costs and the revenues, we do</p> <p>10 not see a significant change for 2004 from</p> <p>11 what we have filed. Nor do we see a</p> <p>12 significant change with respect to the</p> <p>13 forecast loss on regulated activities.</p> <p>14 However, Hydro obviously is prepared to speak</p> <p>15 to the revision, and if necessary, to recall</p> <p>16 witnesses. As I said, I had planned to recall</p> <p>17 Mr. Roberts if there is a significant change,</p> <p>18 and certainly any of the other parties, if</p> <p>19 they wish, are free to ask for the recall of</p> <p>20 any other witness. The problem, as you know,</p> <p>21 is the timing. It takes so long to do the</p> <p>22 information from the time we file, and we have</p> <p>23 agreed to file that revised with the actuals</p> <p>24 to the end of August, as suggested by Grant</p> <p>25 Thornton in its report and as we had done in</p>

Page 53	Page 54
<p>1 GREENE, Q.C.: 2 the 2001 General Rate Application. 3 CHAIRMAN: 4 Q. I guess, Mr. Kelly, the only thing that I can 5 conclude is that the information that we have 6 before us, including the quarterly reports, 7 are the most recent and up-to-date 8 information. That's what I'm hearing Ms. 9 Greene indicate. She's indicating that 10 additional information will be brought forward 11 on a timely basis, and certainly the option is 12 there, through either undertaking or recall, 13 to have the witnesses appear again for any 14 additional questioning that might occur as a 15 result of that, and beyond that, I think we 16 should probably proceed. 17 KELLY, Q.C.: 18 Q. And what I would ask, at this stage, if Hydro 19 would undertake is to provide that breakdown 20 for the end of June of the net operating 21 expenses, so that we can properly prepare for 22 Mr. Roberts coming next week. I think that 23 would be of assistance to myself and certainly 24 of assistance to other counsel. 25 GREENE, Q.C.:</p>	<p>1 Q. I would like the opportunity to discuss that 2 with Mr. Roberts. I'm not sure if that's 3 actually readily available now, and if it's 4 not, I wonder the efficacy or the efficiency 5 of providing it, when we are going to be 6 providing it as of the end of August. 7 CHAIRMAN: 8 Q. If you could undertake that discussion with 9 Mr. Roberts - 10 GREENE, Q.C.: 11 Q. Yes, I will. 12 CHAIRMAN: 13 Q. - and get back to us, Ms. Greene, I'd 14 appreciate that. 15 GREENE, Q.C.: 16 Q. And I will advise you if we can do that, and 17 if we cannot, why not, and why I don't think 18 it's necessary. 19 KELLY, Q.C.: 20 Q. Thank you. Thank you, Ms. Greene. Thank you, 21 Chairman. Mr. Wells, in your evidence 22 yesterday, you spoke about some of the cost 23 control initiatives at Hydro, and I'd like, 24 with that in mind, to come back to Schedule 2 25 now of Mr. Roberts, and I'd like to look at</p>
Page 55	Page 56
<p>1 with you the 2002 final test year and the 2002 2 actual line. If we start with the major 3 component at the top, we have depreciation and 4 your depreciation numbers there are very close 5 between the test year revenue requirements and 6 the actuals, correct? Do you have that? 7 A. Yes. 8 Q. Okay. Then if we come down to the fuel 9 purchase, the net fuel, total fuel, the 10 revenue requirement was 88.6 million, whereas 11 the actuals were 73.2 million, and that would 12 reflect, I take it, that the new rates became 13 effective in September, so a larger amount was 14 booked to the RSP. Would that be essentially 15 correct? 16 A. You're gone to the bottom line here for total 17 fuel? 18 Q. Total fuel, yes. 19 A. Yes. 20 Q. Is that correct? 21 A. Well, just repeat that question. 22 Q. Okay. The amount that was projected for total 23 fuel was 88.6 million, whereas the actual 24 number turned out to be 73.2 million, and 25 because your rates became effective in</p>	<p>1 September, a larger amount was booked to the 2 RSP? 3 A. That would be--no, the larger amount would 4 come into revenue, from 12.50 going up to \$26. 5 Q. Yes, after September. 6 A. After September, yes. 7 Q. Right. So you had 46 million booked to the 8 RSP? 9 A. Yes, that's true. 10 Q. Correct? 11 A. That's right. 12 Q. And so in terms of a financial position, you 13 ended up with approximately \$15 million better 14 off on the revenue side, correct? Your 15 purchased power expense is pretty much on 16 target, about \$700,000 in difference there. 17 Then we come down to your other costs and the 18 subtotal line was 104,119 versus 96,000 in 19 test year costs. So your actual performance 20 in 2002 exceeded what the Board determined as 21 appropriate by approximately eight million 22 dollars, correct? 7.876. 23 A. That's the difference. 24 Q. That's the difference, and that is 8.2 percent 25 over what the Board tested as your 2002</p>

Page 57	Page 58
<p>1 KELLY, Q.C.:</p> <p>2 expenses. Can you provide us with an</p> <p>3 explanation as to why Hydro exceeded its</p> <p>4 tested amount by 8.2 percent?</p> <p>5 A. Yes, the first eight months of the year, we</p> <p>6 were operating under the 1992 cost of service.</p> <p>7 The Board's order did not come into effect</p> <p>8 until September 1st, so we had a hybrid year</p> <p>9 of eight months operating under one order and</p> <p>10 cost of service, and then four months of</p> <p>11 another order and cost of service.</p> <p>12 Q. But in what manner, Mr. Wells, would any of</p> <p>13 that have affected any of the items in</p> <p>14 controllable cost categories?</p> <p>15 A. Well if you want to review the 2002</p> <p>16 controllable costs, the actuals, is that--why</p> <p>17 is there a different--you're asking me what is</p> <p>18 the difference in terms of our costs and why</p> <p>19 are they higher than we had estimated?</p> <p>20 Q. Well, why are your 2002 actuals -</p> <p>21 A. Yes.</p> <p>22 Q. - in your other cost category, which are your</p> <p>23 operating costs or controllable costs, your</p> <p>24 number is 104, but the Board tested number was</p> <p>25 96,000,000?</p>	<p>1 A. That was the test year revenue requirement was</p> <p>2 96.</p> <p>3 Q. Yes.</p> <p>4 A. And it turned out to be 104. Yes, and you can</p> <p>5 see, if you look at salaries and fringe</p> <p>6 benefits, it goes from 62 to 64.5.</p> <p>7 Q. Yes.</p> <p>8 A. And that's part of the differential to which</p> <p>9 you refer.</p> <p>10 Q. But one of the things you told us about was</p> <p>11 the number of employees who had been--</p> <p>12 positions had been vacated, et cetera, yet the</p> <p>13 Board having determined that 61.9 was a</p> <p>14 reasonable allowance for salaries, your</p> <p>15 numbers still are in at 64.5?</p> <p>16 A. Yes, and in that year, we eliminated 46</p> <p>17 positions, absorbed the severance costs</p> <p>18 because then we can start the 2003 year with</p> <p>19 the savings immediate, so there's a figure in</p> <p>20 there--I have it somewhere--but there's a</p> <p>21 figure in there that relates to--and it's in</p> <p>22 one of the answers, I mean, all of this is</p> <p>23 filed evidence, that we have provided the</p> <p>24 dollars that we put into severance cost, well</p> <p>25 in excess of a million, in October of 2002</p>
Page 59	Page 60
<p>1 related to the elimination of 46 positions.</p> <p>2 There was another adjustment in there, as I</p> <p>3 recall, with respect to employee future</p> <p>4 benefits of some million. So there is a ready</p> <p>5 explanation of the differential between the</p> <p>6 2002 actuals and salaries and fringe benefits</p> <p>7 and the 61.9 that you referred to. And this</p> <p>8 has been filed in the evidence. I can't bring</p> <p>9 it on the screen now because I don't know</p> <p>10 what--but there's an answer to that question.</p> <p>11 Q. So your actuals ended up 8.2 percent over test</p> <p>12 year requirement, but if I come across that</p> <p>13 line to your 2003 estimate, your estimate for</p> <p>14 2003 still exceeds by over 4 million dollars</p> <p>15 your 2002 tested costs. So your costs</p> <p>16 continued to rise, is that not correct?</p> <p>17 A. The total costs, that's the correct figure and</p> <p>18 as we have put in our Application, there is</p> <p>19 the 4 million dollar difference in our</p> <p>20 operating costs over the 2002 test year. That</p> <p>21 was the main part, I think, of my opening</p> <p>22 statement yesterday and it's noted in our</p> <p>23 Application, that difference, yes.</p> <p>24 Q. And if you go across to 2004, your costs at--</p> <p>25 controllable costs at a hundred million eight,</p>	<p>1 eight hundred and thirty, again exceeds by</p> <p>2 almost four and a half, five million dollars</p> <p>3 your 2002 test year requirement, correct?</p> <p>4 A. That's correct.</p> <p>5 Q. So that the costs, the controllable costs</p> <p>6 continue to rise, despite the efforts that you</p> <p>7 talked about to bring these costs under</p> <p>8 control?</p> <p>9 A. Well they are under control. You want to note</p> <p>10 the incline, not the--if you're expecting that</p> <p>11 the total costs would go down, we could have a</p> <p>12 debate on that, but the evidence will indicate</p> <p>13 what the figures are and what we filed, and</p> <p>14 then you have to look at the components of</p> <p>15 those costs and while we're on this point, if</p> <p>16 you'll just indulge me for one second, is that</p> <p>17 we use the term "controllable" and we</p> <p>18 certainly use it within the organization to</p> <p>19 differentiate from things that we have</p> <p>20 absolutely no control over, such as the actual</p> <p>21 price of fuel, Hydro can't influence that or</p> <p>22 the interest rates that are determined, you</p> <p>23 know, in the country. The controllable costs</p> <p>24 of which we refer, which are, you know, in the</p> <p>25 order of 25 to 30 percent of the costs that</p>

Page 61	Page 62
<p>1 MR. WELLS:</p> <p>2 are going into the rate application, we have</p> <p>3 some influence over those. But to say that we</p> <p>4 control in the sense of being able to dictate</p> <p>5 those costs, that's not the case, but we can</p> <p>6 influence those costs. We do have an</p> <p>7 opportunity to bargain. We can do things with</p> <p>8 our employees with respect to compensation,</p> <p>9 but we don't control it entirely. And</p> <p>10 therefore, one has to look at the components,</p> <p>11 the 63 percent of those costs are salaries and</p> <p>12 fringe benefits, that's the largest item. You</p> <p>13 have system equipment maintenance which is 17</p> <p>14 percent, and the rest of those line items on</p> <p>15 the schedule we're looking at, starting with</p> <p>16 insurance, down to productivity allowance, are</p> <p>17 approximately 20 percent of the costs over,</p> <p>18 I'll say for the purposes of discussion, that</p> <p>19 we have some influence. Now the figures that</p> <p>20 you refer to, if your arithmetic is correct,</p> <p>21 that's the figures.</p> <p>22 Q. Now, Mr. Browne took you yesterday to a</p> <p>23 passage in your evidence in which you</p> <p>24 indicated that about 25 percent of the</p> <p>25 workforce will be entering retirement over the</p>	<p>1 next number of years. Do you remember that</p> <p>2 discussion from yesterday?</p> <p>3 A. Yes.</p> <p>4 Q. And I'm wondering whether Hydro has looked at</p> <p>5 efforts to reorganize its operations</p> <p>6 simultaneously with that retirement process</p> <p>7 going on to achieve efficiencies in its</p> <p>8 operations? Can you address that question?</p> <p>9 A. Yes, we have had people retiring within the</p> <p>10 organization for a number of years now, and as</p> <p>11 we have indicated in our evidence how many we</p> <p>12 expect to be eligible for retirement, but the</p> <p>13 issue of controlling our costs and</p> <p>14 specifically with respect to compensation,</p> <p>15 which is the key area that we can exercise and</p> <p>16 have some influence, if you look at the</p> <p>17 record, we have, as we presented in our last</p> <p>18 rate application and the evidence in this rate</p> <p>19 application, we have reorganized, refined,</p> <p>20 clarified, leveraged our technology and</p> <p>21 reduced our--what could have been the expense</p> <p>22 for wages and salaries by a substantial amount</p> <p>23 with the elimination of the positions. We</p> <p>24 have evidence that the Board is familiar with,</p> <p>25 with respect to our reorganization in</p>
Page 63	Page 64
<p>1 transmission and rural operations. We closed</p> <p>2 offices; we consolidated. We have changed our</p> <p>3 internal processes; we've reviewed processes.</p> <p>4 The 46 positions that were eliminated last</p> <p>5 fall are part of that whole process, and their</p> <p>6 positions were eliminated this year and what</p> <p>7 we're doing is targeting, as we have</p> <p>8 explained, all our processes and where we can</p> <p>9 make changes and reduce the number of</p> <p>10 employees involved and still deliver, we have</p> <p>11 attempted to do that. And I would suggest</p> <p>12 that the evidence would indicate we've been</p> <p>13 very successful with the elimination of the</p> <p>14 200 positions met.</p> <p>15 (10:30 a.m.)</p> <p>16 Q. Now, the next item as we come down the</p> <p>17 Schedule 2, again, is the allocations and</p> <p>18 there's an item there for Hydro capitalized</p> <p>19 expense. And that's a credit that goes to</p> <p>20 your bottom line, doesn't it, in effect?</p> <p>21 A. Uh-hm.</p> <p>22 Q. Do we understand that item? Just want to</p> <p>23 maybe explain it to the Board.</p> <p>24 A. You're talking line item 29?</p> <p>25 Q. Line item 29, yes, sir.</p>	<p>1 A. Yes.</p> <p>2 Q. Okay. If we go to NP 28 and NP 28 is a large</p> <p>3 document with attachments, and what I've done,</p> <p>4 if the clerk wishes, is I've found the few</p> <p>5 pages out of that huge document, this may be</p> <p>6 quicker, Mr. Chairman. If we go to the first</p> <p>7 page after the question, we have the salary</p> <p>8 summaries that show the 2002 budget for</p> <p>9 capitalization, if you go down the third line</p> <p>10 across? And you'll see in the budget, it was</p> <p>11 budgeted at \$4,350,000? Do you see that line,</p> <p>12 Mr. Wells?</p> <p>13 A. On this document?</p> <p>14 Q. Yes, if you go to the first page in.</p> <p>15 A. Yes.</p> <p>16 Q. And you go to the capitalized expense line.</p> <p>17 A. I'm sorry, yes, I have it now.</p> <p>18 Q. Now you see 1999 actual, you had roughly eight</p> <p>19 million dollars?</p> <p>20 A. Yes.</p> <p>21 Q. But the 2000 budget showed 4.35 million,</p> <p>22 correct?</p> <p>23 A. Yes.</p> <p>24 Q. Okay, turn over to the next page, the 2000</p> <p>25 actual, despite being budgeted at 4.3 came in</p>

Page 65	Page 66
<p>1 KELLY, Q.C.:</p> <p>2 at 7.2. Then you had a 2001 budget number of</p> <p>3 5.5 and when you went over to 2001 actual,</p> <p>4 which is the next page, it actually came in at</p> <p>5 8.9. And in the 2002 test year budget, you</p> <p>6 had 5.723 which is the number that is on Mr.</p> <p>7 Roberts' schedule as well for final test year</p> <p>8 requirement. But when you go to Schedule 2 of</p> <p>9 Mr. Roberts, your actual again came in at</p> <p>10 eight million one hundred and sixteen. So</p> <p>11 there's consistently about three million</p> <p>12 dollars that is under budgeted on this item.</p> <p>13 And my colleague, Ms. Butler, took Mr. Roberts</p> <p>14 through this at the last rate hearing in some</p> <p>15 detail and asked whether in fact the number</p> <p>16 should be higher and said, well, there was no</p> <p>17 reason to make it higher. But it in fact did</p> <p>18 come in, as predicted, another--at eight</p> <p>19 million dollars, as opposed to 5.72. So, when</p> <p>20 you got to your subtotal of net operating</p> <p>21 expenses, part of that was a credit for this</p> <p>22 capitalized expense item, wasn't it? Correct?</p> <p>23 A. Yes.</p> <p>24 Q. Do you have any explanation why that item came</p> <p>25 in three million dollars or 2.5 million</p>	<p>1 dollars approximately, over budget in terms of</p> <p>2 the tested year amount?</p> <p>3 A. I don't have that with me right now, but I am</p> <p>4 sure that Mr. Roberts would be able to answer</p> <p>5 that in the particular, and then that would be</p> <p>6 the more appropriate way to go. I know that</p> <p>7 we have--I have in my head certain figures</p> <p>8 with respect to changes in 2002 that I am</p> <p>9 aware of, but I would defer to Mr. Roberts on</p> <p>10 the detail.</p> <p>11 Q. Okay. And then as we come down to the end of</p> <p>12 Schedule 2, we have total other costs, which</p> <p>13 is net operating costs, in effect, 91 million</p> <p>14 verses 85.7 million. So again, on that score,</p> <p>15 6.3 percent I calculated as in excess of the</p> <p>16 test year requirement. Would you agree with</p> <p>17 that?</p> <p>18 A. I'm back at the page, but I haven't found your</p> <p>19 figure yet.</p> <p>20 Q. Sorry, if you go to line 33, sir.</p> <p>21 A. Yes.</p> <p>22 Q. Okay. And then if you come down to, you have</p> <p>23 interest, which is pretty much on target on</p> <p>24 line 34.</p> <p>25 A. Uh-hm.</p>
Page 67	Page 68
<p>1 Q. And finally at line 35 you have your margin or</p> <p>2 return on equity of 9.72 million, do you see</p> <p>3 that?</p> <p>4 A. Yes.</p> <p>5 Q. And that is, in fact, 1.783 million above the</p> <p>6 test year requirement, correct?</p> <p>7 A. That's correct.</p> <p>8 Q. Now if I put that together, the whole package,</p> <p>9 Mr. Wells, here's what I get. On your total</p> <p>10 fuel, you ended up 15 million dollars ahead;</p> <p>11 in other words, you didn't spend 15 million</p> <p>12 dollars on fuel. But you overspent against</p> <p>13 the test year requirement almost 8 million</p> <p>14 dollars in the controllable category,</p> <p>15 recaptured about 3 of that with this</p> <p>16 capitalized expense issue and ended up still</p> <p>17 at the end of the day, 1.8 million dollars</p> <p>18 ahead on the bottom line, despite the fact</p> <p>19 that expenses were up on the controllable</p> <p>20 category by almost 8 million dollars. Can you</p> <p>21 speak to that?</p> <p>22 A. Yes, well there is an explanation and it's</p> <p>23 provided in detail when you look at our</p> <p>24 financial statements and the report, so that</p> <p>25 every line item we can provide the explanation</p>	<p>1 for. And the other thing with respect to your</p> <p>2 conclusions that you draw, I can speak to</p> <p>3 individual items of salaries and fringe</p> <p>4 benefits as a group, as to what went on there</p> <p>5 or system equipment maintenance and indeed</p> <p>6 some of the other items, but I emphasize once</p> <p>7 again and this can be dealt with when Mr.</p> <p>8 Roberts is giving evidence, that we--you're</p> <p>9 looking, you're trying to compare the 2002</p> <p>10 final test year and I can only reiterate that</p> <p>11 the order of the Board, you know, did not</p> <p>12 become effective until September 1, and there</p> <p>13 are differences related to that. Again, I</p> <p>14 would defer to Mr. Roberts on that. And the</p> <p>15 explanation with respect to our salaries and</p> <p>16 fringe benefits has already been filed in the</p> <p>17 evidence. I can think of two of the items</p> <p>18 that make up the majority of the difference</p> <p>19 with respect to the positions being</p> <p>20 eliminated, the employee future benefits,</p> <p>21 which also--the reason why that had to change</p> <p>22 has been explained in the evidence. And our</p> <p>23 insurance cost, as you can see, are up</p> <p>24 substantially. The rest of the items are, if</p> <p>25 you look at the whole of the thing, and this</p>

Page 69	Page 70
<p>1 MR. WELLS:</p> <p>2 is not the summary that I had with me, but</p> <p>3 there's a difference there in professional</p> <p>4 services slightly, there's an explanation for</p> <p>5 that. The other items there, the productivity</p> <p>6 allowance goes in with no counter measure</p> <p>7 against it, but the fact of the matter on the</p> <p>8 productivity allowance, what we had in terms</p> <p>9 of actual expenses for wages and salaries has</p> <p>10 been affected by other factors. So the only</p> <p>11 comment I can make because you can dig down</p> <p>12 through all the line items with Mr. Roberts,</p> <p>13 but the fact of the matter is that there has</p> <p>14 clearly been a restraint exercised in terms of</p> <p>15 our wages and salaries and system equipment</p> <p>16 maintenance and other costs, over which we</p> <p>17 have some influence. And I emphasize that</p> <p>18 influencing factor and with respect to our</p> <p>19 revenues and the purchase of fuel, the</p> <p>20 experience that we get and changes that incur</p> <p>21 in fact over the year, are subject to</p> <p>22 circumstances that you can't be exactly</p> <p>23 precise and we depend so much on our load</p> <p>24 forecast from our customers because we sell</p> <p>25 bulk supplies.</p>	<p>1 Q. I hear what you're saying, but 8.2 percent in</p> <p>2 the net operating costs has little, if</p> <p>3 anything, to do with load forecast, and has</p> <p>4 little, if anything, to do with a split in</p> <p>5 when your rates became effective. It has only</p> <p>6 to do with your operations during that period</p> <p>7 of time, and just by going down at a high</p> <p>8 level here, not only did Hydro not achieve the</p> <p>9 productivity allowance, but on operating</p> <p>10 expenses, you were a further 5.8 million off</p> <p>11 the mark. And is that not the bottom line?</p> <p>12 A. Well, and if you look at the big components,</p> <p>13 there's another almost two million dollars, in</p> <p>14 the way you round figures, in terms of loss on</p> <p>15 disposal of fixed assets. So if you want to</p> <p>16 review those other details, and the variance</p> <p>17 and the explanation, I am absolutely confident</p> <p>18 we have already filed the answers to the</p> <p>19 questions. I just don't know which one to</p> <p>20 refer you to, so I would suggest that we would</p> <p>21 save everybody's time by having--dealing with</p> <p>22 the particulars there with Mr. Roberts.</p> <p>23 Q. Well, there is one item that I do want to</p> <p>24 probe a little further on because you address</p> <p>25 it expressly in your own pre-filed testimony,</p>
Page 71	Page 72
<p>1 which is the Business Process Improvement</p> <p>2 Project in 2002. And you talk about that in</p> <p>3 your pre-filed testimony, and perhaps just in</p> <p>4 a thumbnail sketch you might just explain to</p> <p>5 the Board what that project was?</p> <p>6 A. Well, okay, the terminology again bothers me,</p> <p>7 but I'll deal with it because that was one of</p> <p>8 the items in your seven million dollars that</p> <p>9 we had just been talking about, in addition to</p> <p>10 the things that I mentioned. Part of our--as</p> <p>11 the Board is now aware, which it was not aware</p> <p>12 and I apologize for that, we didn't present</p> <p>13 evidence with respect to our strategic</p> <p>14 planning activity and what was going on, as we</p> <p>15 were in a hearing in our 2001 application, but</p> <p>16 going back to 2000, we had instituted a review</p> <p>17 of all of our activities through strategic</p> <p>18 planning. And we have a strategic planning</p> <p>19 process and that carried through to a point in</p> <p>20 2001 and following again the platform that was</p> <p>21 put in place from '97 to 2000 with our JD</p> <p>22 Edwards Financial Controlling System and our</p> <p>23 new hardware, we started a review of the</p> <p>24 strategic issues confronting Hydro, and one of</p> <p>25 the results was the focus on performance and</p>	<p>1 the means to measure performance. And one of</p> <p>2 the concerns expressed by the Board when the</p> <p>3 report came out, was that the Commissioners</p> <p>4 stated that you had no means by which to</p> <p>5 measure Hydro's performance and that the onus</p> <p>6 was on us to provide you with those means of</p> <p>7 measurement, and you made directions to your</p> <p>8 financial consultants in that regard.</p> <p>9 Now, unfortunately, you were not aware at</p> <p>10 that time that Hydro was engaged, very</p> <p>11 actively, in performance reviews and looking</p> <p>12 at the issue of not having the metrics by</p> <p>13 which to measure performance. Subsequently</p> <p>14 now, we have had the reports filed for our</p> <p>15 2001 year and our 2002 year, and your</p> <p>16 financial consultant, Grant Thornton confirms</p> <p>17 that activity and the work that had been</p> <p>18 undertaken prior to the Board's issuing its</p> <p>19 decision on our 2001 application. What we</p> <p>20 wanted to achieve within the organization was</p> <p>21 a review of all our processes and we delayed</p> <p>22 that review in the latter part of 2001 because</p> <p>23 of our involvement in the rate application at</p> <p>24 that time, but it was clear that we intended</p> <p>25 to pursue it in 2002 and indeed we did, and we</p>

Page 73	Page 74
<p>1 MR. WELLS:</p> <p>2 started by retaining consultants; one, to get</p> <p>3 the initiative off the ground early; two, to</p> <p>4 get a knowledge transfer in terms of mapping</p> <p>5 business processes and whatnot and using the</p> <p>6 resources of the consultant with that program.</p> <p>7 And we started in supply chain management and</p> <p>8 carried on from there and as outlined in my</p> <p>9 evidence, we've gone through a variety of</p> <p>10 things and it's in Mr. Roberts' evidence as</p> <p>11 well, going through supply chain management,</p> <p>12 accounts payable, inventory, materials</p> <p>13 management, we're into work budgeting and</p> <p>14 processing.</p> <p>15 (10:45 a.m.)</p> <p>16 This is not a program that will end. This is</p> <p>17 a program that is part of--will continue in</p> <p>18 Hydro as we examine--and continue to examine,</p> <p>19 constantly looking to be as efficient and</p> <p>20 effective as possible, and more importantly,</p> <p>21 from the Board's point of view, at your level</p> <p>22 of review to be able to provide you with the</p> <p>23 results of the activity within Hydro. So you</p> <p>24 will see and it's in the evidence that we were</p> <p>25 asked a question as to what costs were</p>	<p>1 associated with that in the first year and if</p> <p>2 my memory serves, I think it was one million</p> <p>3 dollars which was not contemplated, obviously,</p> <p>4 and we didn't have that in our test year</p> <p>5 requirement or budget. We didn't have that in</p> <p>6 the budget when we started for 2002, that</p> <p>7 retention of consultants. We were going to</p> <p>8 try to do it with a committee of our own and</p> <p>9 about February of 2002, I, for one, certainly</p> <p>10 came to the conclusion that we should not</p> <p>11 wait. I think reviewing the documentation of</p> <p>12 our strategic planning, it said that we would</p> <p>13 have a committee in place to work on this by</p> <p>14 mid 2002, and in January of 2002, I thought</p> <p>15 that that's another six months gone and we</p> <p>16 agreed in the management committee of the</p> <p>17 organization that we would retain consultants.</p> <p>18 So we hadn't planned to retain, we were</p> <p>19 planning to do it on our own, but came to the</p> <p>20 conclusion, certainly I was very strong on</p> <p>21 this, that we should get at this and we've</p> <p>22 delayed enough by our involvement in the</p> <p>23 hearing and everything and we wanted to get</p> <p>24 ahead with this. So we got underway very</p> <p>25 early in 2002 and retained consultants, which</p>
Page 75	Page 76
<p>1 no one in preparing our Application and</p> <p>2 putting in the 2002 test year, we had not, at</p> <p>3 any time, contemplated the retention of</p> <p>4 consultants. That didn't happen until</p> <p>5 February of 2002.</p> <p>6 Q. And who were the consultants that you</p> <p>7 retained?</p> <p>8 A. It was a firm from Ontario.</p> <p>9 Q. Can you tell us the name?</p> <p>10 A. Covenco.</p> <p>11 Q. Okay. Now, can I take you to CA-46 on this</p> <p>12 issue? Now, that exercise, if I follow your</p> <p>13 answer to this question correctly, cost 1. 8</p> <p>14 million dollars, one million of which was for</p> <p>15 the consultants?</p> <p>16 A. That's correct. What the--it was</p> <p>17 approximately one million for consultants,</p> <p>18 including their expenses. The eight million</p> <p>19 (sic.) refers to employees of Hydro who worked</p> <p>20 with, you know, were working with Hydro who</p> <p>21 worked with Covenco, and most of these people</p> <p>22 are business analysts and some on-line</p> <p>23 management people who were employed with</p> <p>24 Hydro. In any event, they were reviewing</p> <p>25 their processes, so that I, personally, the 8</p>	<p>1 million (sic.) is not the issue here in terms</p> <p>2 of the retention of the consultants. The</p> <p>3 800,000 I'm talking about, I'm sorry, the</p> <p>4 800,000 are regular Hydro employees who are,</p> <p>5 and should be, working on improving the</p> <p>6 business of the Company.</p> <p>7 Q. So you have -</p> <p>8 A. But their salaries were attributed to -</p> <p>9 Q. To that project.</p> <p>10 A. To that process, yes.</p> <p>11 Q. So you had one million dollars of outside</p> <p>12 consultant costs and 800,000 dollars of Hydro</p> <p>13 internal costs. And out of that, you're</p> <p>14 projecting annual savings of \$600,000.00. Can</p> <p>15 I -</p> <p>16 A. Well that was only--that's partially, yes,</p> <p>17 correct, of the program as we had it at the</p> <p>18 time that we filed, yes.</p> <p>19 Q. Okay, so can I take you next to NP-258 because</p> <p>20 we were curious then to see the consultant's</p> <p>21 report, that's a major project study that you</p> <p>22 undertook, this business process improvement</p> <p>23 project, and you just explained at some length</p> <p>24 the process, but yet there are no reports</p> <p>25 issued for one million dollars worth of</p>

Page 77	Page 78
<p>1 KELLY, Q.C.:</p> <p>2 expenditures to this particular firm?</p> <p>3 A. Of course not, you don't understand what we're</p> <p>4 doing here. What--the consultants came in and</p> <p>5 worked with our people and they started in</p> <p>6 supply chain management and looking at our</p> <p>7 materials, inventory and handling, they worked</p> <p>8 with our people, going through all the steps</p> <p>9 of the process and in accounts payable, for</p> <p>10 instance, if we order from an outside supplier</p> <p>11 and then the supplier submits its invoice, so</p> <p>12 we're tracking, within the organization, how</p> <p>13 many hands touched that invoice? Where does</p> <p>14 that invoice go before it's finally approved</p> <p>15 and the supplier gets paid? And what are the</p> <p>16 costs associated with that? And by going into</p> <p>17 the detail and reviewing all of the processes</p> <p>18 and all the people involved, and getting the</p> <p>19 invoices and the information lined up in the</p> <p>20 various locations, we were able to achieve</p> <p>21 savings and reduce the steps in the procedures</p> <p>22 and in this particular case, there was a</p> <p>23 reduction in personnel. The work that we were</p> <p>24 doing is not like, come in and review us and</p> <p>25 write a report. This was--we formed our own</p>	<p>1 team to work with the consultants and then the</p> <p>2 consultants, after a period of time, and we</p> <p>3 had the transfer of the processes, we carry</p> <p>4 on. And we're carrying on today. There's no</p> <p>5 report to come from the consultants. The</p> <p>6 consultants work with us.</p> <p>7 Q. Did you ask the consultants to prepare written</p> <p>8 recommendations on how you should overhaul</p> <p>9 your inventory and supply system after you had</p> <p>10 worked with them?</p> <p>11 A. No. They would report to us on their progress</p> <p>12 and certainly I was interested, and we all</p> <p>13 were, in the progress being made and they and</p> <p>14 our team would come in and say at this point</p> <p>15 in time, here's what we found, here's what can</p> <p>16 be done. And, you know, once we had agreed</p> <p>17 that the process could be changed and we</p> <p>18 wanted to implement it, then part of that</p> <p>19 again is to bring all the employees involved,</p> <p>20 you know, into the picture and we targeted an</p> <p>21 implementation and then we changed the</p> <p>22 processes.</p> <p>23 Q. But did you ask the consultants to report on</p> <p>24 what they found and how the system should be</p> <p>25 modified?</p>
Page 79	Page 80
<p>1 A. What we were dealing with, what are the facts.</p> <p>2 And if these are the facts, how can we take</p> <p>3 advantage of either technology or different</p> <p>4 policies and procedures to ensure that we are</p> <p>5 looking after our suppliers, who are</p> <p>6 stakeholders, that they get timely payments of</p> <p>7 their invoices and can we reduce the cost?</p> <p>8 And that's what we--what we're doing in there</p> <p>9 is looking at--everything that we do is being</p> <p>10 critically examined to see if we're, if</p> <p>11 there's not added value work, if there's ways</p> <p>12 we can eliminate processes and reduce costs,</p> <p>13 and it's ongoing. And it's not the subject</p> <p>14 matter--I'm not the least bit interested in</p> <p>15 reports and documentation about something.</p> <p>16 What I'm looking for is something to be done,</p> <p>17 and this program is ongoing and when we have</p> <p>18 an opportunity to take advantage of an issue,</p> <p>19 that we take it. I mean, we reviewed our</p> <p>20 meter reading this year. We looked at how</p> <p>21 many meters, you know, individual meter</p> <p>22 readers read, what is the area of the</p> <p>23 location. How do we benchmark ourselves</p> <p>24 against other utilities? And we made changes</p> <p>25 and ended up, we hope to save approximately</p>	<p>1 \$128,000.00 on meter reading alone. We have</p> <p>2 our DSR's now, that's the diesel system that</p> <p>3 the mechanic--the fellow that looks after the</p> <p>4 plant is engaged in meter reading. We found</p> <p>5 it was more efficient to have, in certain</p> <p>6 areas, part-time meter readers, instead of a</p> <p>7 fulltime in too large an area. We found some</p> <p>8 areas where one meter reader had, not through</p> <p>9 any fault of his, but the system was such that</p> <p>10 they didn't have enough meters really to read.</p> <p>11 So we broke it down and we got a part-time</p> <p>12 meter reader and we have the DSR to cover off</p> <p>13 the meter reading duties. Now I'm only, you</p> <p>14 know, that's just one little point on it. We</p> <p>15 reviewed all of our inventory. We came out</p> <p>16 with a different classification and</p> <p>17 description of our inventory and how we would</p> <p>18 handle it, and how we would handle</p> <p>19 consumables. So, this is the stuff of</p> <p>20 management, it is not the stuff of reports and</p> <p>21 now we have, throughout the organization in</p> <p>22 Hydro, we are constantly looking and reviewing</p> <p>23 and this is taking place today. There are</p> <p>24 people in various parts of the organization</p> <p>25 working on things that they are involved in,</p>

Page 81	Page 82
<p>1 MR. WELLS:</p> <p>2 to ensure that we're doing it better. And in</p> <p>3 conjunction with that, very important with</p> <p>4 respect to the Board, was to come up with</p> <p>5 meaningful measures of what it is we're doing,</p> <p>6 in a way that we could, from the Board's</p> <p>7 concern, show that there are efficiencies that</p> <p>8 we have gained, that the whole process should</p> <p>9 produce the efficiencies in future, you know,</p> <p>10 and there's no end to this. This is not</p> <p>11 something that we will tidy up and write a</p> <p>12 report about later. It's just our business.</p> <p>13 Q. And I take it from what you've just said, that</p> <p>14 the consultants then, did not write a report</p> <p>15 on any efficiencies achieved or contemplated?</p> <p>16 A. No, but they certainly filled the walls with--</p> <p>17 we've got diagrams and charts of processes,</p> <p>18 but this was ongoing work. There's no written</p> <p>19 report.</p> <p>20 Q. Well if the consultants didn't prepare a</p> <p>21 report on the study, the recommendations and</p> <p>22 any efficiencies to be gained, did management</p> <p>23 prepare reports on plans with respect to the</p> <p>24 changes, implementation and efficiencies?</p> <p>25 A. No, no, that's not the way the procedure</p>	<p>1 works. The results of the studies would come</p> <p>2 out, I mean, we would have a pattern of where</p> <p>3 we would change processes and decide how we're</p> <p>4 going to handle things. And there would be</p> <p>5 any number of charts and diagrams and the</p> <p>6 supporting material and reviews where we might</p> <p>7 have ten people or forty people in a room, and</p> <p>8 we say, let's look at this whole area of our</p> <p>9 operation and here's how we can handle it and</p> <p>10 all of the individuals that are going to be</p> <p>11 involved in this process and you're all aware</p> <p>12 of how this is going to work and your various</p> <p>13 responsibilities, now what training we need</p> <p>14 for the people that are going to be involved,</p> <p>15 and over time, you move to instituting these</p> <p>16 processes.</p> <p>17 Q. But if neither the consultants prepared that</p> <p>18 type of a report or management prepared that</p> <p>19 type of report, how is the Board to determine</p> <p>20 the value of this expenditure and whether--and</p> <p>21 how are they able to judge the efficiency</p> <p>22 gains that you say that flowed out of this</p> <p>23 process without any type of report or study?</p> <p>24 A. The issue will be in the results of our</p> <p>25 controllable expenses and we are reporting to</p>
Page 83	Page 84
<p>1 the Board constantly. We are reviewed by the</p> <p>2 financial consultants to the Board. We have</p> <p>3 reviewed the means by which we should report</p> <p>4 on our efforts, and you have, as filed in the</p> <p>5 evidence, the report of Grant Thornton with</p> <p>6 respect to--as requested by the Board on our</p> <p>7 regulatory performance measures. And we are</p> <p>8 in a position where we can track our costs and</p> <p>9 our performance, both from a management, you</p> <p>10 know, internal management down to the</p> <p>11 divisional departmental level, up to the</p> <p>12 corporate level, and for the purposes of the</p> <p>13 Board. And that is going to be part of the</p> <p>14 Board's overall continuing regulatory review</p> <p>15 of Hydro.</p> <p>16 Q. So the sum total of the documentation that</p> <p>17 exists with respect to this process, in terms</p> <p>18 of study, recommendations and efficiency</p> <p>19 gains, are pages 23 and 24 of Mr. Roberts'</p> <p>20 evidence as indicated in NP-258?</p> <p>21 A. Yes or in my evidence, yes, we've outlined</p> <p>22 within the evidence what we are doing with</p> <p>23 respect to our operations and how we expect to</p> <p>24 improve. It's not a matter of--the matter is,</p> <p>25 is to make sure that we're efficient and</p>	<p>1 effective. And efficiency in performance and</p> <p>2 productivity are what it's all about. And</p> <p>3 that's why you get down to examining</p> <p>4 everything that you do and how you do it, and</p> <p>5 again, a lot of things that we're now able to</p> <p>6 do and make changes, result from technology</p> <p>7 and change circumstances. So, you know, when</p> <p>8 we look at it, what did we do since we have</p> <p>9 last seen the Board? Are accounts payables</p> <p>10 completely reviewed and revamped? There was</p> <p>11 some loss of employment there. Our corporate</p> <p>12 purchasing and travel card has changed</p> <p>13 completely. We now don't have employees</p> <p>14 submitting expense accounts, it goes in on</p> <p>15 their time sheet and they get paid. Our</p> <p>16 consumables and inventory all changed. Our</p> <p>17 meter reading I mentioned. We are now in the</p> <p>18 process of working on work management and work</p> <p>19 budgeting and with technology, we're going to</p> <p>20 have a very, very sophisticated system. This</p> <p>21 is taking some time to work on, but any asset</p> <p>22 in the corporation, the capital costs, the</p> <p>23 operating costs, everything will all come</p> <p>24 together and that's going to help in the</p> <p>25 maintenance philosophy, we'll be able to</p>

Page 85	Page 86
<p>1 MR. WELLS:</p> <p>2 determine with each piece of equipment in the</p> <p>3 organization exactly what costs have gone</p> <p>4 against it, whether they're capital or</p> <p>5 operating. And then, for like equipment, we'd</p> <p>6 be able to track the repairs to that</p> <p>7 equipment, the maintenance effort and come to</p> <p>8 conclusions with respect to preventative</p> <p>9 maintenance or run to failure and make good</p> <p>10 value judgments based on information that we</p> <p>11 have available to us. So the whole asset</p> <p>12 management of the Company, as we go down this</p> <p>13 road, is going to change, and internally, to</p> <p>14 us, that's very positive. Externally, the</p> <p>15 results we can only report to the Board in</p> <p>16 terms of the ongoing assessment, how are we</p> <p>17 managing our costs over which we have some</p> <p>18 influence?</p> <p>19 (11:00 a.m.)</p> <p>20 Q. And Mr. Roberts, in his testimony, indicates</p> <p>21 that there are three further areas where work</p> <p>22 is being done on this -</p> <p>23 A. At the moment, yes.</p> <p>24 Q. - business process improvement. One is</p> <p>25 acquisition of goods and services and</p>	<p>1 centralized inventory control; two is work</p> <p>2 management; and three is asset management.</p> <p>3 Now, is the process that you're undertaking</p> <p>4 for those, going to be carried out on the same</p> <p>5 basis without the preparation of ultimate</p> <p>6 reports?</p> <p>7 A. Yes, but if you--definitely, as long as I'm</p> <p>8 there it will be. But the issue is not that</p> <p>9 there's nothing written about this, if we were</p> <p>10 to make a presentation on business improvement</p> <p>11 processes and all the work that's undertaken</p> <p>12 and the material that's produced, every--</p> <p>13 periodically we will review, like where are we</p> <p>14 on work management, work budgeting? And the</p> <p>15 teams will come in, as assigned to it, and</p> <p>16 make a presentation, say to management</p> <p>17 committee and say, here's where we are in the</p> <p>18 process at this point in time. So that</p> <p>19 there's a lot of material within the</p> <p>20 organization, but we don't try to produce a</p> <p>21 report and say, well here's our report on</p> <p>22 that. That's a waste of time and I'm not</p> <p>23 interested in having a report. I'm interested</p> <p>24 in having the things that we targeted we're</p> <p>25 going to attack, dealt with and we progress</p>
Page 87	Page 88
<p>1 right down to bringing it into operational</p> <p>2 mode. And that's what the people are about.</p> <p>3 Q. But, Mr. Wells -</p> <p>4 CHAIRMAN:</p> <p>5 Q. Excuse me, Mr. Kelly, I'm going to have to</p> <p>6 step in here. It's three minutes after</p> <p>7 eleven. I would like you to indulge me, if</p> <p>8 nobody else will this morning. We'll take a</p> <p>9 one-half hour break, as scheduled, and I'll</p> <p>10 ask you to try and adhere to the one half hour</p> <p>11 please. Thank you.</p> <p>12 (11:33 a.m.)</p> <p>13 CHAIRMAN:</p> <p>14 Q. There might be a little bit of problems with</p> <p>15 the temperature here this morning. I don't</p> <p>16 know what we're going to be able to do about</p> <p>17 it. I think somebody is talking to one of the</p> <p>18 maintenance people out there and hopefully</p> <p>19 it's in hand. We'll try and do something</p> <p>20 about it next day, but I'm not sure our</p> <p>21 efforts are going to be successful because</p> <p>22 we've been having some trouble over the last</p> <p>23 two to three weeks, actually, with the room</p> <p>24 temperature around here. But hopefully we</p> <p>25 will be able to improve the situation in the</p>	<p>1 days ahead. We do have a Board sweater out</p> <p>2 there that everybody wears still available if</p> <p>3 anybody would wish to have it. You ready to</p> <p>4 continue, Mr. Wells? Mr. Kelly, when you're</p> <p>5 ready, please?</p> <p>6 KELLY, Q.C.:</p> <p>7 Q. Thank you, Chair. Mr. Wells, I just want to</p> <p>8 finish up the discussion we were having before</p> <p>9 we broke. We talked about the business</p> <p>10 process improvement project. And if I can</p> <p>11 just take you back to CA 46 for a moment? We</p> <p>12 looked at CA 46 and we had the discussion that</p> <p>13 there was approximately \$800,000 of internal</p> <p>14 Hydro costs in 2002 related to this particular</p> <p>15 project, and we discussed the fact that there</p> <p>16 was still an ongoing program in three areas</p> <p>17 dealing with acquisition of goods and</p> <p>18 services, work management and asset</p> <p>19 management. Do you have--do you know the</p> <p>20 amount of the internal Hydro costs that are</p> <p>21 expected over the next--this year and 2004</p> <p>22 with respect to this particular business</p> <p>23 process improvement project?</p> <p>24 A. No. The only cost, other than if there's some</p> <p>25 minor in materials, the costs are to do with</p>

Page 89	Page 90
<p>1 MR. WELLS:</p> <p>2 our employees who are involved, at any</p> <p>3 particular point in time, in working on</p> <p>4 whatever their area would be with respect to</p> <p>5 an initiative. It's unfortunate, I guess,</p> <p>6 that the termination project--this is not--as</p> <p>7 I tried to explain earlier to the Board,</p> <p>8 Commissioners, that in any organization,</p> <p>9 you're trying to be more efficient, more</p> <p>10 effective and reduce your costs and ergo,</p> <p>11 increase your profits, or in this case, reduce</p> <p>12 the expense to consumers. And therefore, when</p> <p>13 the people that are employed today, they would</p> <p>14 be employed in any event, but in certain cases</p> <p>15 you'll see line managers come together with</p> <p>16 business analysts to review the nature of the</p> <p>17 work under discussion or that area of the work</p> <p>18 to improve it, and that's exactly what they</p> <p>19 should be doing. So to the extent that people</p> <p>20 are involved in making the functions that they</p> <p>21 control better, then if you say I want to</p> <p>22 allocate the dollars to that, to me, in my</p> <p>23 mind, I'm just--that's what they're there for</p> <p>24 in the first place, to make things better and</p> <p>25 improve their work. So I have absolutely zero</p>	<p>1 interest in tracking in terms of the cost.</p> <p>2 The consultant was a discrete issue. We have</p> <p>3 business analysts that were attached to</p> <p>4 various functions, either in IT or finance or</p> <p>5 in the rates process--in the finance side, and</p> <p>6 that would include rates, and in the operating</p> <p>7 businesses. What we do now is have them work</p> <p>8 more together, and what we're looking at is at</p> <p>9 cross functional issues, as aside from</p> <p>10 divisional issues. So that the issue for me</p> <p>11 is that employees in Hydro have, through an</p> <p>12 ongoing strategic planning process, we've</p> <p>13 determined how we want to approach certain</p> <p>14 things, we've set goals and objectives. We</p> <p>15 are only talking about one particular</p> <p>16 objective here with respect to performance and</p> <p>17 how do we keep improving it and work on it as</p> <p>18 part of the ongoing work of everybody in the</p> <p>19 organization. And the other critical factor</p> <p>20 is to be able to measure levels of activity</p> <p>21 and how we're doing. When it gets to this</p> <p>22 level with the Board, then we have to stand on</p> <p>23 our facts and figures as to what influence</p> <p>24 we've had over costs over which we can't have</p> <p>25 influence, what are the results, and then the</p>
Page 91	Page 92
<p>1 results will speak for themselves.</p> <p>2 Q. So you can't tell me the cost that you expect</p> <p>3 internally for this project in 2003, 2004?</p> <p>4 A. It will be encompassed in and part of our</p> <p>5 normal salary costs. We're not taking on</p> <p>6 extra people or anything.</p> <p>7 Q. But you can't break it out for us?</p> <p>8 A. I suppose one could say to each employee</p> <p>9 involved, did you attend a joint meeting with</p> <p>10 others dealing with the issue of asset</p> <p>11 management in some particular, but, you know,</p> <p>12 as of a Tuesday, but that's what they're</p> <p>13 supposed to be doing in any event.</p> <p>14 Q. In order for you as the CEO at the top of the</p> <p>15 organization to understand how this business</p> <p>16 process improvement project is going, do not</p> <p>17 the people who are involved in the interface</p> <p>18 with the consultants -</p> <p>19 A. There are no consultants.</p> <p>20 Q. - and management people--no. During 2002 and</p> <p>21 on an ongoing basis the internal people at</p> <p>22 Hydro, do they not report to you in writing as</p> <p>23 to how they are doing with this project?</p> <p>24 A. The leader, the senior executive director</p> <p>25 which leads the--coordinates the initiative</p>	<p>1 reports directly to me. And we have a senior</p> <p>2 management improvement team to deal with the</p> <p>3 policy issues and we have process teams, that</p> <p>4 would be like business analysts or on line</p> <p>5 management people or staff who are involved</p> <p>6 because of their work in a particular area.</p> <p>7 They would be involved in the initiatives that</p> <p>8 are taken to improve what the specific issue</p> <p>9 that they're looking after, and there are no</p> <p>10 additional people as a result of this. It's</p> <p>11 the work of the--the ongoing work. I mean,</p> <p>12 earlier this week or last week, you know, I</p> <p>13 see people that are in Hydro Place from</p> <p>14 various areas in the organization and I know</p> <p>15 the particular initiative in which they</p> <p>16 working on it, you know, it's an ongoing</p> <p>17 process and with the team. And to that</p> <p>18 extent, if you say there's a cost in that of</p> <p>19 having people come together at various times</p> <p>20 to close out a position or agree that this is</p> <p>21 what we should do in this instance or what we</p> <p>22 can do and get the position to recommend it up</p> <p>23 the line, then I suppose you could say that</p> <p>24 there's some cost allocated to it. From the</p> <p>25 CEO's perspective it's quite clear, the people</p>

Page 93	Page 94
<p>1 MR. WELLS:</p> <p>2 over in Hydro are actively engaged in their</p> <p>3 work and in trying to improve their work</p> <p>4 processes and make things better. And every</p> <p>5 now and then we will announce something like</p> <p>6 the closure of the over the counter service</p> <p>7 that we did this summer in Wabush and St.</p> <p>8 Anthony because we thought we could take</p> <p>9 advantage of a situation. There's ways for</p> <p>10 people to pay their bill. We looked at the</p> <p>11 number of transactions, we examined the cost</p> <p>12 of each transaction, we concluded that it</p> <p>13 would be better to close out those offices.</p> <p>14 There was a reduction in staff. There's the</p> <p>15 normal reaction in Newfoundland when you--</p> <p>16 certainly with Hydro, because everybody out</p> <p>17 there seems to expect us to hire more people,</p> <p>18 not let them go. But so that's just another</p> <p>19 example. We took moves and you're going to</p> <p>20 hear--I can--you know, as time goes forward</p> <p>21 every opportunity that we get where we can</p> <p>22 change something to the better or reduce a</p> <p>23 cost, we're going to do it.</p> <p>24 Q. But did anybody--the question which I put,</p> <p>25 though, is in that reporting, is that done in</p>	<p>1 writing? For example, you just gave the Board</p> <p>2 a long explanation about what is taking place,</p> <p>3 but does anybody report that in writing to you</p> <p>4 as the CEO?</p> <p>5 A. Usually what we do is have a presentation, it</p> <p>6 would be in the form of a slide show, so that,</p> <p>7 you know, it's an on screen presentation of -</p> <p>8 Q. So that's the extent of it, is it?</p> <p>9 A. That type of thing.</p> <p>10 Q. What about -</p> <p>11 A. Now, the actual--if there's something that has</p> <p>12 to be written related to the work or</p> <p>13 something, that--you know, whatever has to be</p> <p>14 done, is done. But, we're not looking for</p> <p>15 booklets.</p> <p>16 Q. What about in reporting to your own Hydro</p> <p>17 board, is that reported the Hydro board?</p> <p>18 A. Periodically I have the executive director,</p> <p>19 senior director, I mean, who leads this team,</p> <p>20 he comes in with me and the senior management</p> <p>21 and we review our process improvement</p> <p>22 initiatives with the board. Because the board</p> <p>23 has not only approved our strategic planning</p> <p>24 and our goals and objectives, so they are--we</p> <p>25 report to our board on these initiatives.</p>
Page 95	Page 96
<p>1 Q. But there's no written report to the board on</p> <p>2 -</p> <p>3 (11:45 a.m.)</p> <p>4 A. It said--the reports to the board are in the</p> <p>5 form of a slide presentation and discussion.</p> <p>6 Q. One of the topics that was talked about the</p> <p>7 last time around with you was the JD Edwards</p> <p>8 computer system. And at that stage in</p> <p>9 September of 01 you expressed to the Board</p> <p>10 that we haven't been able to take full</p> <p>11 advantage of that yet. Can you give us an</p> <p>12 update as to where that project is?</p> <p>13 A. The JD Edwards system was put in place and was</p> <p>14 fully operational at the end of--or the</p> <p>15 beginning of 2000, the end of 1999. And you</p> <p>16 had that big scare of the 2000, the turn of</p> <p>17 the century thing, but we were ready for that</p> <p>18 and had JD Edwards process in--we had our</p> <p>19 hardware in. When I said that we hadn't taken</p> <p>20 advantage of that in the fullest extent, this</p> <p>21 is what I'm talking about now. This is the</p> <p>22 whole of the issues related to improving our</p> <p>23 processes, leveraging technology and becoming</p> <p>24 more innovative. And we have now been able to</p> <p>25 make very good use of the JD Edwards system in</p>	<p>1 a variety of ways, in ability to have real</p> <p>2 time, real on line information, real time.</p> <p>3 The various levels of management can look over</p> <p>4 their operations and they can by clicking the</p> <p>5 button, look down through projects and costs</p> <p>6 and drill down right to the end detail. And</p> <p>7 all of this was not available to us before. A</p> <p>8 big part of our materials management and</p> <p>9 handling processes and our asset management</p> <p>10 and what we call COMB, is the capital and</p> <p>11 operating and business management is all</p> <p>12 because of JD Edwards. And part of the</p> <p>13 initiative in the spring when we had Covenco</p> <p>14 in, was to bring up specialists from JD</p> <p>15 Edwards because we said here are things that</p> <p>16 we would like to be able to do in our</p> <p>17 processes, can the system handle it. And they</p> <p>18 confirmed that, indeed, it could on things</p> <p>19 that we were asking them about. And we were</p> <p>20 able to take that program of JD Edwards and</p> <p>21 we've expanded on it and we've improved our</p> <p>22 processes. And I don't think there's a point</p> <p>23 where we'll say there's a end to this, you</p> <p>24 know, it will keep on going. And the results</p> <p>25 in the end, from my view, will speak for</p>

Page 97	Page 98
<p>1 MR. WELLS:</p> <p>2 themselves. But the Hydro of 2005 will be</p> <p>3 absolutely nothing like the Hydro of, say,</p> <p>4 1999 or 1998. Technology and the capabilities</p> <p>5 of technology are going to change our</p> <p>6 processes dramatically. But it does take a</p> <p>7 lot of time. We're putting in 35,000 entries</p> <p>8 of fixed asset items and attributing the costs</p> <p>9 and everything that will be to it. Doing</p> <p>10 that--getting that all set up in the system</p> <p>11 takes considerable time.</p> <p>12 Q. Will those changes, Mr. Wells, we've talked</p> <p>13 about, the business improvement project, the</p> <p>14 JD Edwards project, will they create</p> <p>15 productivity gains at Hydro?</p> <p>16 A. Would they create?</p> <p>17 Q. Yeah, do they lead to and create productivity</p> <p>18 gains?</p> <p>19 A. Oh, absolutely, in my opinion.</p> <p>20 Q. Okay. Now, let me take you to a document that</p> <p>21 Mr. Browne took you to this morning which is</p> <p>22 CA 44 and we go to the attached scheduled. We</p> <p>23 have here the controllable costs in 1996, '97</p> <p>24 through to forecast 2004. And if we look at,</p> <p>25 first of all, the '96 gross controllable costs</p>	<p>1 numbers, we go from a low in 1997 of</p> <p>2 82,730,000? Do you see that number?</p> <p>3 A. Yes, 1997.</p> <p>4 Q. That appears to be the low. And if you move</p> <p>5 to the 2004 forecast, the gross controllable</p> <p>6 costs in 2004 will be 100 million, 289?</p> <p>7 A. That's correct.</p> <p>8 Q. And I make that an increase from 1997 of 219</p> <p>9 percent, almost 22 percent over that '97 to</p> <p>10 2004, seven year period?</p> <p>11 A. Yeah.</p> <p>12 Q. You agree with that? And if we go to the net</p> <p>13 controllable costs and we look at the same</p> <p>14 line which is 1997 is again the low period, we</p> <p>15 have 73 million in 1997 and a net of 93</p> <p>16 million forecast in 2004--2004, rather?</p> <p>17 A. That's correct.</p> <p>18 Q. And I make that a change over that period of</p> <p>19 26.7 percent. Do you agree with that?</p> <p>20 A. If your arithmetic is right.</p> <p>21 Q. Okay. And I'm wondering if I can get you to</p> <p>22 comment on that 26.7 percent increase in net</p> <p>23 controllable costs during that seven year</p> <p>24 period?</p> <p>25 A. That about three percent a year, not bad.</p>
Page 99	Page 100
<p>1 Q. So you say that's not bad against -</p> <p>2 A. Not bad. And let's look at the components of</p> <p>3 those costs. If you--within that period we</p> <p>4 have in more recent or latter years tracked</p> <p>5 slightly ahead of inflation on our salary</p> <p>6 increases because of that period of catch up</p> <p>7 which we had to go through. And I won't</p> <p>8 repeat that, the Board is very well--the wage</p> <p>9 freeze. And to get to competitive wages and</p> <p>10 salaries. And the total bill, as we've talked</p> <p>11 before, from '92 to 2002 or 2004, inflation</p> <p>12 was 19 percent, we were 7.5 percent. Now,</p> <p>13 maybe there's somebody else somewhere in the</p> <p>14 world could do better, but if that is not an</p> <p>15 example of performance gains. I refer you to</p> <p>16 Chart 5, page 12 of my evidence when we look</p> <p>17 at the index of inflation and Hydro's total</p> <p>18 controllable costs from 2000 to 2004, it was</p> <p>19 2000 we started with the JD Edwards system</p> <p>20 fully in place. You can see there tracking</p> <p>21 inflation that our total controllable costs</p> <p>22 are doing very well indeed. And there is that</p> <p>23 bump there in 2002. And part of that was, I</p> <p>24 think, was some of the figures that you were</p> <p>25 talking to me about earlier this morning and</p>	<p>1 included the a fact that in 2002 we had, as I</p> <p>2 recall now, one project, there was \$1 million</p> <p>3 on capitalized work and overtime and there was</p> <p>4 \$1.6 related to the elimination of the 46</p> <p>5 positions. I have that written somewhere</p> <p>6 here, and I had it before the Board entered,</p> <p>7 and you know, that's disappeared since you've</p> <p>8 come into the room, Mr. Chair.</p> <p>9 Q. Not on my desk, Mr. Wells.</p> <p>10 A. But it was right here. I think I'm right on</p> <p>11 it. But there is an explanation for--and</p> <p>12 basically there's a figure there for</p> <p>13 capitalize overtime in 2002, overtime on</p> <p>14 capitalized work and there's a figure for the</p> <p>15 elimination of 46 positions. Because we</p> <p>16 target positions, we set up the program, we</p> <p>17 eliminate, we pay the cost and record it in</p> <p>18 that year, so we start the next year with the</p> <p>19 full savings. There's somebody somewhere in</p> <p>20 this evidence asked about early retirement</p> <p>21 programs. We don't go there.</p> <p>22 Q. You compared yourself, I believe, in your</p> <p>23 evidence-in-chief with other utilities. In</p> <p>24 fact, I believe Schedule 1 to your evidence</p> <p>25 has a comparison table?</p>

Page 101	Page 102
<p>1 MR. WELLS</p> <p>2 A. That's correct.</p> <p>3 Q. And I notice across that table that these are</p> <p>4 all companies outside of Newfoundland. Have</p> <p>5 you performed any comparison against</p> <p>6 Newfoundland companies?</p> <p>7 A. We don't have comparable Newfoundland company</p> <p>8 to Hydro to compare ourselves with.</p> <p>9 Q. And so you wouldn't have looked at, for</p> <p>10 example, to compare the net operating expenses</p> <p>11 and how they've changed over time at</p> <p>12 Newfoundland Power?</p> <p>13 A. I'm aware how they've changed, but that would</p> <p>14 not be a significant influence with me in</p> <p>15 terms of the comparable company.</p> <p>16 Q. And just do you want to give the Board the</p> <p>17 benefit of your views on that as to why</p> <p>18 Newfoundland Power would not be a comparable</p> <p>19 company?</p> <p>20 A. Newfoundland Power is relatively small in</p> <p>21 Canadian or North American standards</p> <p>22 distribution utility. We're all relatively</p> <p>23 small in this area. It is primarily a</p> <p>24 distribution company, and so it does a lot of</p> <p>25 the same thing. It runs a lot of low voltage</p>	<p>1 distribution wire and drops to houses and has</p> <p>2 some small amount of transmission to maintain</p> <p>3 and a small amount of generation.</p> <p>4 Our activities are quite diverse and</p> <p>5 wide. The Holyrood thermal plant on its own</p> <p>6 would be as complex an operation as anyone</p> <p>7 would want to have to contend with. And the</p> <p>8 issue of the cost related to that, the</p> <p>9 employees that are required to run it, we have</p> <p>10 so many fixed seats in our Company where an</p> <p>11 operator has to be sitting there and 24 hours</p> <p>12 a day, seven days a week, 365 days a year. We</p> <p>13 have those 24 isolated diesel systems,</p> <p>14 discrete little power systems where we have to</p> <p>15 have people in those communities and cover</p> <p>16 that operation and we operate transmission</p> <p>17 lines.</p> <p>18 When our linemen are in our towers,</p> <p>19 they're in a bog, they're looking at a bog.</p> <p>20 When Newfoundland Power's linemen are up a</p> <p>21 pole, generally they're in somebody's</p> <p>22 backyard. The issues that they--and they've</p> <p>23 done very well. I don't--I think Newfoundland</p> <p>24 Power has done a marvellous job in their</p> <p>25 organization and they can target and do a</p>
Page 103	Page 104
<p>1 pulse hit on a certain problem somewhere and</p> <p>2 take their linemen and move it into an area</p> <p>3 and do--these are things that they've done in</p> <p>4 their--you know, looking after their interests</p> <p>5 and their performance which are suitable to</p> <p>6 their type of operation.</p> <p>7 But when you look at the operations that</p> <p>8 we have, it's a total, totally different</p> <p>9 consideration. We operate a lot of rotating</p> <p>10 equipment. We have a very large and complex</p> <p>11 and aged thermal plant and we have our hydro</p> <p>12 plants distributed around the island, and it's</p> <p>13 a totally different picture. And what we're</p> <p>14 called upon to do--if you could indulge me for</p> <p>15 a moment, we'll--you know, I look at the</p> <p>16 situation, because we're called to account</p> <p>17 here as to, you know, all this fuel we spent</p> <p>18 and all these capital dollars and then we're</p> <p>19 talking about our operating expenses like</p> <p>20 system equipment maintenance.</p> <p>21 And I'll tell you the difference in my</p> <p>22 mind between ourselves and Newfoundland Power.</p> <p>23 In June there's a house on Maple Street, 14</p> <p>24 Maple Street and there's electricity in that</p> <p>25 house and they have electric heat, for</p>	<p>1 argument sake, and the other house at 12 Maple</p> <p>2 Street might have oil fire heat. In June our</p> <p>3 average load in the run of a summer day, 400</p> <p>4 megawatts, five, 450. We're busily getting</p> <p>5 ready for what we know is about to come.</p> <p>6 Newfoundland Power has that set up and it's</p> <p>7 there's on Maple Street and that's it. In</p> <p>8 January the 15th the draw on that electric</p> <p>9 heat home on Maple Street is fantastic. All</p> <p>10 of a sudden we're up to 12, 1400 megawatts on</p> <p>11 the demand on the system. We got people</p> <p>12 working feverishly to keep everything going at</p> <p>13 that time. That's when we're buying the fuel,</p> <p>14 getting it into, you know, and they can</p> <p>15 basically be inert. It's not their--that's</p> <p>16 the nature of their business. How much</p> <p>17 electricity is going through the wires into</p> <p>18 that house causes no physical concern or</p> <p>19 problem or issue for Newfoundland Power,</p> <p>20 whether there's any amount or whether there's</p> <p>21 a toaster on in the house or everything is</p> <p>22 going fully with electric heat, that doesn't</p> <p>23 affect Newfoundland Power. When we have those</p> <p>24 generators in Holyrood going close to</p> <p>25 capacity, we got a lot of issues on our hands</p>

Page 105	Page 106
<p>1 MR. WELLS:</p> <p>2 in terms of all that complex system has to</p> <p>3 work. And when we get through a year, then we</p> <p>4 have to make sure, after wearing it out quite</p> <p>5 a bit, that we have to get it fixed and</p> <p>6 brought back to standard for the next season.</p> <p>7 So when you're involved in a production</p> <p>8 utility and when all this rotating equipment</p> <p>9 is spread all over the place, you have a</p> <p>10 totally different view of the world when you</p> <p>11 have your majority--I've been in my residence</p> <p>12 since 1968 or nine. I can't ever remember</p> <p>13 seeing a Newfoundland Power lineman in the</p> <p>14 backyard. There's a pole there. Now, I'm not</p> <p>15 complaining, the service is fine, they're</p> <p>16 doing their job. But it's just, you know, in</p> <p>17 your house, have you seen anybody from</p> <p>18 Newfoundland Power lately? They have their</p> <p>19 areas of storm and problems and all that, but</p> <p>20 it's a totally different world.</p> <p>21 Q. Would you agree with me, Mr. Wells, that while</p> <p>22 you're busy with your generators in January,</p> <p>23 the Newfoundland Power linesman is out in</p> <p>24 Wesleyville or whatever in the middle of</p> <p>25 storms servicing those lines and keeping the</p>	<p>1 transmission and distribution system up and</p> <p>2 operating?</p> <p>3 (12:00 p.m.)</p> <p>4 A. Oh, of course they do. And they have their</p> <p>5 areas of difficult operation, like the</p> <p>6 southwest coast of Newfoundland, like we have</p> <p>7 the northwest coast. We're quite aware of</p> <p>8 that.</p> <p>9 Q. My -</p> <p>10 A. But to talk from a staffing level, the</p> <p>11 expertise required, we have--in Newfoundland</p> <p>12 Power, I mean, they have, you know, engineers</p> <p>13 that work on distribution systems, their</p> <p>14 transformers, their level of--and like I say,</p> <p>15 all of it is the same, one house is much like</p> <p>16 the next house.</p> <p>17 In Hydro we have all sorts of differing</p> <p>18 things and differing equipment, differing</p> <p>19 turbines. So we have a body of expertise</p> <p>20 within Hydro that's quite broad ranging. And</p> <p>21 then we have to work on all these diesel</p> <p>22 systems. So we have a far more complex system</p> <p>23 to operate in a very broad territory. And</p> <p>24 thankfully, like, because of Churchill Falls,</p> <p>25 I mean, we do operate the six largest, or it</p>
Page 107	Page 108
<p>1 was, can't be less than eighth powerhouse in</p> <p>2 the world. And we have years and years of</p> <p>3 engineering experience where people came out</p> <p>4 of Churchill or have worked in Churchill are</p> <p>5 back, you know. And when we built Granite</p> <p>6 Canal, I mean, we had our own engineering</p> <p>7 team, you know, in charge of that. I felt</p> <p>8 comfortable throughout the thing because we</p> <p>9 had more experience on staff than most of the</p> <p>10 contractors and consultants or anything we</p> <p>11 dealt with. You know, I look in the room</p> <p>12 here, I can see Mr. Haynes, 12 years in</p> <p>13 Churchill Falls, he's had a production. Now,</p> <p>14 he's not looking after that plant directly</p> <p>15 today, but that experience in terms of Hydro's</p> <p>16 operations in generation, you know, there's</p> <p>17 any number. Mr. Banfield is here, he's a</p> <p>18 director of rates now, but he was involved in</p> <p>19 that. We have on staff personnel that are</p> <p>20 really expert in handling these power</p> <p>21 production facilities, whether they're thermal</p> <p>22 or whether they're hydro. And we have a lot</p> <p>23 of expertise in handling isolated diesel</p> <p>24 systems.</p> <p>25 Now, Newfoundland Hydro--or Newfoundland</p>	<p>1 Power is not involved to that extent in those</p> <p>2 broad range of things that they have to do.</p> <p>3 And I don't want for one moment--I'm not</p> <p>4 pejorative about Newfoundland Power. I think</p> <p>5 they've done a tremendous job, I'm aware of</p> <p>6 what they've done with their staffing, I'm</p> <p>7 aware now how they organize some of their work</p> <p>8 in blitz areas and these sorts of things, and</p> <p>9 they have the normal issues if there's a storm</p> <p>10 and problems they turn to, as do our people in</p> <p>11 distribution or transmission.</p> <p>12 But our transmission lines, you have to</p> <p>13 admit, are high voltage transmissions, are</p> <p>14 towers and everything where we cross</p> <p>15 Newfoundland. We operate in a different way</p> <p>16 with a lot heavier equipment doing different</p> <p>17 things because our work is not the same as</p> <p>18 their work. And we are very small in</p> <p>19 distribution, they are relative to us very</p> <p>20 large in distribution. And to look at their</p> <p>21 setup and to look at our setup and the support</p> <p>22 systems to it is entirely different, in my</p> <p>23 view. I mean, that's my view of it, and you</p> <p>24 asked for it, so.</p> <p>25 Q. Well, that's why we're here, to have your</p>

Page 109	Page 110
<p>1 KELLY, Q.C.:</p> <p>2 views, Mr. Wells. I just want to follow that</p> <p>3 along with a couple of further questions, and</p> <p>4 the first one is this, have--your people are</p> <p>5 obviously hired and paid just as Newfoundland</p> <p>6 Power's people are here in Newfoundland. The</p> <p>7 utilities which you have on your Schedule 1</p> <p>8 are--all deal with utilities in which the</p> <p>9 people are hired and paid elsewhere in the</p> <p>10 country. Have you performed any analysis of</p> <p>11 the salary levels and with respect to those</p> <p>12 companies across the country to do a</p> <p>13 meaningful comparison between those companies</p> <p>14 and Hydro?</p> <p>15 A. No. The purpose of the Schedule 1 to the</p> <p>16 corporate evidence was to show the percentage</p> <p>17 increase in their O, M and A expenses reported</p> <p>18 by them. With respect to salaries, I'm sure</p> <p>19 that in most of those utilities their level of</p> <p>20 compensation would be higher than Newfoundland</p> <p>21 and Labrador Hydro.</p> <p>22 Q. But you haven't done any sorts of analysis -</p> <p>23 A. No. The extent -</p> <p>24 Q. - to determine comparability?</p> <p>25 A. No. For what it's worth to the Commissioners,</p>	<p>1 the intent of this chart was to show that from</p> <p>2 1992 to 2002 Newfoundland Hydro O, M and A had</p> <p>3 gone up 19 percent and the other companies</p> <p>4 varied from 47, 26, 13, 30, 18 and 50, so we</p> <p>5 seem to be in the ball park and bettering the</p> <p>6 average. And from 1998 to 2002 we were better</p> <p>7 than all of them on a percentage basis for O,</p> <p>8 M and A expenses. And I think that the Grant</p> <p>9 Thornton is recommending to the Commissioners,</p> <p>10 causing me some problem, but to compare</p> <p>11 performance with other utilities other than</p> <p>12 normal CEA standards. But all this is</p> <p>13 intended to show that over the time frame that</p> <p>14 we're looking at, that's what happened to</p> <p>15 other utilities that are, I would suggest, are</p> <p>16 more comparable to our situation than as Mr.</p> <p>17 Kelly would suggest, that have you talked</p> <p>18 about comparing yourself with Newfoundland</p> <p>19 Power.</p> <p>20 Q. Okay. Now -</p> <p>21 A. Nothing more than that.</p> <p>22 Q. Mr. Wells, having looked at CA 44, we looked</p> <p>23 at changes in your net controllable costs from</p> <p>24 1996, '97 up to 2004, what now--and we looked</p> <p>25 already with you earlier on this morning with</p>
Page 111	Page 112
<p>1 what had taken place in your 2002 test year</p> <p>2 versus your actuals. And I'd like to turn</p> <p>3 next and look with you for the Board over the</p> <p>4 next five years out. And perhaps if we could</p> <p>5 do that by looking at CA No. 3? And you'll</p> <p>6 see attached to CA 3 is Newfoundland and</p> <p>7 Labrador Hydro's financial projections for</p> <p>8 2003 to 2007?</p> <p>9 A. Yes.</p> <p>10 Q. Let me take you to, first of all, roman</p> <p>11 numeral four, the executive summary page of</p> <p>12 that document. Do you have that? And if I</p> <p>13 take you down to the first bullet where you</p> <p>14 say "the year 2003 is based on forecast</p> <p>15 results and 2004 is based on the revised test</p> <p>16 year as filed with the Board on August 12,</p> <p>17 2003 as part of the 2003 rate application".</p> <p>18 And then the second bullet says, "the years</p> <p>19 2004 onward are projected to be test years</p> <p>20 meaning that rates will be adjusted annually</p> <p>21 to recover each year's costs". Can I get you</p> <p>22 to explain to the Board what you mean by that</p> <p>23 and, in particular, is it contemplated that</p> <p>24 Hydro will be applying to the Board in each of</p> <p>25 the years, '05, '06 and '07?</p>	<p>1 A. No, this is to provide the information in a</p> <p>2 meaningful way, there are certain assumptions.</p> <p>3 And the assumption that we're using in</p> <p>4 developing the figures that are contained in</p> <p>5 this particular document, are based on the</p> <p>6 assumption that the rates are adjusted to</p> <p>7 recover each years costs. And not that we're</p> <p>8 going to apply every year, but it has the same</p> <p>9 affect as though the Board were making sure</p> <p>10 that our rates met each year's cost. In that</p> <p>11 sense, it has the character of a test year.</p> <p>12 Q. Okay. So, it's not that you contemplate</p> <p>13 coming back every year?</p> <p>14 A. Definitely not.</p> <p>15 Q. Don't even want to think about it. Let me</p> <p>16 take you, Mr. Wells, to page seven next, page</p> <p>17 seven of the document--no--there we go.</p> <p>18 Operating and administration expenses, do you</p> <p>19 see that heading that, Mr. Wells?</p> <p>20 A. Um-hm.</p> <p>21 Q. And it says, "excluding extraordinary items,</p> <p>22 operating and administration expenses for 2005</p> <p>23 onward are expected to increase at the rate of</p> <p>24 inflation". So, we looked at the history of</p> <p>25 the changes in operating expenses from</p>

Page 113	Page 114
<p>1 KELLY, Q.C.:</p> <p>2 1996/'97 and up to 2004, do we take it that we</p> <p>3 can expect continuing increases in operation</p> <p>4 and administration expenses going forward to</p> <p>5 2007 equivalent to inflation?</p> <p>6 A. I think that you can reasonably expect the</p> <p>7 increases in operating--the question of</p> <p>8 inflation, since we don't know what inflation,</p> <p>9 we can only project on that, but when you look</p> <p>10 at the components of operating expenses, I</p> <p>11 don't see the opportunity in--I would be very</p> <p>12 concerned if we were to deal with the system</p> <p>13 equipment maintenance. I think system</p> <p>14 equipment maintenance is going to increase and</p> <p>15 should increase. The salaries and wage</p> <p>16 expense, I think, will be no more than</p> <p>17 inflation. And unless there's something</p> <p>18 untoward, the insurance, where you've got such</p> <p>19 volatility, I think that we can hold that</p> <p>20 other 20 percent to inflation or, with a bit</p> <p>21 of luck, to less than inflation.</p> <p>22 Q. What I hear you saying in that answer is that</p> <p>23 the total is actually likely to somewhat</p> <p>24 exceed inflation because you're expecting</p> <p>25 perhaps above inflation on system maintenance?</p>	<p>1 A. Yeah, the issue there is that you can't equate</p> <p>2 system equipment maintenance to inflation</p> <p>3 figures. The issue with system equipment</p> <p>4 maintenance is how hard are we going to run</p> <p>5 that equipment, look at the age of the</p> <p>6 equipment and what are the capital and</p> <p>7 operating expenditures that we're going to</p> <p>8 incur in insuring that we've got a reliable</p> <p>9 supply of power and energy. And again, I'm</p> <p>10 not an engineer, as you're well aware, for me,</p> <p>11 if you look back in the history of Hydro, back</p> <p>12 in the '90s, that system equipment maintenance</p> <p>13 bill was what I called a, you know, you 10 to</p> <p>14 12 million dollar bill. Today I look at it</p> <p>15 and it's more like a 15 to 17 million dollar</p> <p>16 bill. And I would expect in five or six or</p> <p>17 seven years from now that that thing is going</p> <p>18 to be a twenty plus million dollar bill. And</p> <p>19 that's related to the nature of what we're</p> <p>20 operating, the age of what we're operating and</p> <p>21 the absolutely necessity that it continues to</p> <p>22 operate effectively and, you know, I can't add</p> <p>23 any more than that. The system equipment</p> <p>24 maintenance is an absolutely critical factor</p> <p>25 that we have some influence over, but I would</p>
Page 115	Page 116
<p>1 never want to restrict anybody nor do I think</p> <p>2 Hydro should be restricted to some sort of,</p> <p>3 well this should track inflation or you should</p> <p>4 hold that cost level or you should reduce it.</p> <p>5 If we can and the last couple of years, as the</p> <p>6 charts will show, we've been holding our own</p> <p>7 on system equipment maintenance, but just</p> <p>8 holding our own. And reasonably, depending on</p> <p>9 circumstances, one could expect that that will</p> <p>10 increase. Now, I think said yesterday, with</p> <p>11 respect to questions from Mr. Browne, that on</p> <p>12 our salaries and wages which is the most</p> <p>13 significant, it's 63 percent, that we are</p> <p>14 slightly behind maybe, in terms of</p> <p>15 competitiveness with wages and we would expect</p> <p>16 though, that our wage and salary bill, that 63</p> <p>17 percent, would--the increases should track</p> <p>18 inflation. There may be a lesser number of</p> <p>19 people. So, depending on our capabilities</p> <p>20 with reorganization and what not--there's a</p> <p>21 finite point as to how many people do you</p> <p>22 actually need to operate the system? No</p> <p>23 matter how effective and efficient your</p> <p>24 processes and procedures, I don't know the</p> <p>25 answer to that, but I think that we are going</p>	<p>1 to test the limits in years to come. Some</p> <p>2 would say that we've already tested it in</p> <p>3 certain areas.</p> <p>4 Q. So, despite the productivity gains, that we</p> <p>5 talked about, flowing out of a business</p> <p>6 process improvement project and the JD Edwards</p> <p>7 project, I take it from the answer that you've</p> <p>8 just given, that over the next number of years</p> <p>9 out to 2007 at least, we will continue to see</p> <p>10 increases, at least equal to, maybe greater</p> <p>11 than inflation on the operating expenses of</p> <p>12 Hydro?</p> <p>13 A. I don't think that anything I've said could</p> <p>14 allow you to make the comment that, at least</p> <p>15 equal to or greater than inflation. System</p> <p>16 equipment maintenance, we don't know; the</p> <p>17 others I've said, salary increases themselves</p> <p>18 will most likely track inflation. We have to</p> <p>19 be competitive and I'm not sure what will</p> <p>20 happen with other groups, but I think that the</p> <p>21 opportunity, to best inflation with the total</p> <p>22 salary bill, we would have to reduce the</p> <p>23 numbers of people. And I really don't want to</p> <p>24 make announcements to Hydro employees as this</p> <p>25 hearing about what, but we know that there are</p>

Page 117	Page 118
<p>1 MR. WELLS:</p> <p>2 things that are going to change and we're</p> <p>3 working on things that will help to reduce</p> <p>4 costs and I think we can beat that inflation</p> <p>5 number under 63 percent. I don't think I want</p> <p>6 to challenge anybody in Hydro to deliberately</p> <p>7 beat the inflation number on system equipment</p> <p>8 maintenance because that's too important. We</p> <p>9 will deal with those things that have to be</p> <p>10 dealt with, you know, in that area. And</p> <p>11 transportation, office supplies, building</p> <p>12 rental, these things, it's only 20 percent of</p> <p>13 the thing and I think we can hold our own on</p> <p>14 that with respect to inflation and that's the</p> <p>15 assumption in the reforecast.</p> <p>16 (12:15 p.m.)</p> <p>17 Q. Can I just take you to table 8, Mr. Wells, in</p> <p>18 this report which is page 14. And this is</p> <p>19 your projected rates from 2003 which are the</p> <p>20 current rates out to 2007 and the wholesale</p> <p>21 rate is the rate to Newfoundland Power, we</p> <p>22 just focused on that line, currently 47.9 mils</p> <p>23 and 2004 which is the one in the application,</p> <p>24 54.5 you're showing there and in 2007 to have</p> <p>25 increased to 56.4. I calculate that as an 18</p>	<p>1 percent increase expected from 2003 out to</p> <p>2 2007?</p> <p>3 A. Well, why don't we look at it from 2004 to</p> <p>4 4007 because we're already dealing this</p> <p>5 application and the -</p> <p>6 Q. I was going to come to that.</p> <p>7 A. As we all agree, there's a fairly significant-</p> <p>8 -I'm sure you'd mention that--but yeah, I'll</p> <p>9 accept your percentages, yes.</p> <p>10 Q. Right. In other words, my question is this,</p> <p>11 this application now is for 13.7 percent or</p> <p>12 thereabouts. We still have another, roughly,</p> <p>13 four percent increase to come over the next</p> <p>14 three years that you're currently</p> <p>15 anticipating?</p> <p>16 A. Again, take the assumptions that are in this</p> <p>17 document and the effect of that going forward,</p> <p>18 we are using inflation factors and increases</p> <p>19 with respect to the price of fuel and whatnot</p> <p>20 to arrive at those numbers. So, that's why</p> <p>21 you would pay particular attention to the</p> <p>22 assumptions that are used.</p> <p>23 Q. Now, can I turn next with you to a couple of</p> <p>24 other issues. One is the effect of the</p> <p>25 capital budget decision that the Board</p>
Page 119	Page 120
<p>1 rendered with respect to Newfoundland Hydro.</p> <p>2 And if I take you to NP 233. Now, as a result</p> <p>3 of the decision on the capital budget, the</p> <p>4 reduction in the capital program of</p> <p>5 approximately 6.9 million in 2004 will reduce</p> <p>6 the revenue requirement in the test year by</p> <p>7 approximately 330,000?</p> <p>8 A. Yes.</p> <p>9 Q. And Hydro will be refileing at the end of</p> <p>10 October to reflect that change?</p> <p>11 A. That's correct.</p> <p>12 Q. Okay. And if I take you next to NP 232.</p> <p>13 MR. O'REILLY:</p> <p>14 Q. Of the revised?</p> <p>15 KELLY, Q.C.:</p> <p>16 Q. Yes, the revision. And you recall Mr.</p> <p>17 Brushett raises in his report, the issue of</p> <p>18 historically the capital expenditures from</p> <p>19 1998 to 2002 have been below budget by about</p> <p>20 14 percent and there's a question of the</p> <p>21 retirement rate to be used as well. And we</p> <p>22 ask for a recalculation if we used the</p> <p>23 historical ratios that were achieved. And on</p> <p>24 that basis, the adjustment to revenue</p> <p>25 requirement would be \$416,000.00. And I</p>	<p>1 wonder if I could get you, as CEO, to comment</p> <p>2 on your views as to the appropriateness of</p> <p>3 that adjustment?</p> <p>4 A. As to whether we should follow that particular</p> <p>5 calculation -</p> <p>6 Q. Yes.</p> <p>7 A. - based on past experience?</p> <p>8 Q. Based on past experience.</p> <p>9 A. Well, there is an issue there with respect to</p> <p>10 the capital expenditures and we're aware of</p> <p>11 that, but I have not--we answered the question</p> <p>12 there and gave you the mathematical</p> <p>13 calculation. In terms of a policy decision</p> <p>14 within the company or position within the</p> <p>15 company, whether we would go there, we haven't</p> <p>16 taken a position on that. It may very well</p> <p>17 come out within the course of this proceeding.</p> <p>18 Q. So, Hydro does not have a position as to</p> <p>19 whether that adjustment is appropriate?</p> <p>20 A. No, we have our position for the moment as</p> <p>21 filed. And the issue of this type of thing</p> <p>22 lends itself to argument or position taking,</p> <p>23 all I'm saying is that we haven't adjusted our</p> <p>24 position on that point, but that is risk for</p> <p>25 the mill for the proceeding, I'm sure.</p>

Page 121	Page 122
<p>1 KELLY, Q.C.:</p> <p>2 Q. Okay. Mr. Wells, for the time remaining, I</p> <p>3 want to move now to another topic which is the</p> <p>4 matter of the rural deficit and to focus on</p> <p>5 that, I've provided to you through counsel, a</p> <p>6 list of the information requests that I would</p> <p>7 be taking you to. And Mr. Chairman, there are</p> <p>8 three from the last hearing that I would like</p> <p>9 have admitted to the record and I've provided</p> <p>10 those and provided copies to Mr. Wells. So,</p> <p>11 perhaps before we begin, we can mark those as</p> <p>12 the next exhibits.</p> <p>13 The first one that I ask to have marked</p> <p>14 because I'm not quite sure of the order in</p> <p>15 which the clerk is handing them out would be</p> <p>16 2001 NP 209.</p> <p>17 MS. NEWMAN:</p> <p>18 Q. That would be WW 3.</p> <p>19 KELLY, Q.C.:</p> <p>20 Q. Yes. And then we have NP 36.</p> <p>21 MS. NEWMAN:</p> <p>22 Q. WW 4.</p> <p>23 KELLY, Q.C.:</p> <p>24 Q. And then NP 121.</p> <p>25 MS. NEWMAN:</p>	<p>1 Q. WW No. 5.</p> <p>2 KELLY, Q.C.:</p> <p>3 Q. Does everybody have copies?</p> <p>4 CHAIRMAN:</p> <p>5 Q. Do you have a copy, Mr. Wells?</p> <p>6 A. Yes.</p> <p>7 Q. Yes, okay.</p> <p>8 KELLY, Q.C.:</p> <p>9 Q. Mr. Wells, I'd like to talk, first of all, a</p> <p>10 little bit about the rural deficit in</p> <p>11 principle. I believe we all know what it is.</p> <p>12 Would you agree with me that the rural deficit</p> <p>13 and the manner in which it is currently</p> <p>14 provided for in terms of payment, creates a</p> <p>15 certain level of economic distortion and I'll</p> <p>16 give you two examples. First of all, by</p> <p>17 having it cross-subsidized to customers, other</p> <p>18 customers on the system, the price of</p> <p>19 electricity is increased relative to the price</p> <p>20 of other products. So, if you and I are going</p> <p>21 to the store for, whether it be food or</p> <p>22 whether it be an automobile or whatever, it</p> <p>23 creates that economic distortion. Do you</p> <p>24 agree with that?</p> <p>25 A. The price of electricity?</p>
Page 123	Page 124
<p>1 Q. Yes. In other words, the price of electricity</p> <p>2 is approximately about ten percent higher for</p> <p>3 customers in Newfoundland and Labrador, on the</p> <p>4 island, because of -</p> <p>5 A. Oh, because of the rural deficit.</p> <p>6 Q. - of the rural deficit.</p> <p>7 A. Yes.</p> <p>8 Q. Okay. And the secondary in which it creates</p> <p>9 an economic distortion is that most businesses</p> <p>10 contribute to the rural deficit. In other</p> <p>11 words, if I run a store on Water Street, if I</p> <p>12 run a fish plant in Wesleyville, if I run</p> <p>13 Memorial University, all of those businesses</p> <p>14 contribute to the payment of the rural deficit</p> <p>15 in the rates, whereas the certain Industrial</p> <p>16 customers, Pulp and Paper, the oil refinery,</p> <p>17 et cetera, are exempt by statute. So, there's</p> <p>18 a distortion between businesses as well.</p> <p>19 Would you agree with that?</p> <p>20 A. Well, I'm not sure distortion, are you looking</p> <p>21 at it from any particular point of view or -</p> <p>22 Q. I'd look at it from this point of view, from</p> <p>23 the cost, from the point of view of cost -</p> <p>24 A. Of doing the business.</p> <p>25 Q. - of doing the business, exactly. So that</p>	<p>1 some businesses are paying an increased</p> <p>2 electricity costs relative to -</p> <p>3 A. Others.</p> <p>4 Q. - others.</p> <p>5 A. That's correct.</p> <p>6 Q. That's correct, right. Now, can I take you,</p> <p>7 first of all, to--we'll have a quick look at</p> <p>8 the history of this deficit. It's shown on</p> <p>9 the table at page 2 of discussion paper that</p> <p>10 is attached to your evidence.</p> <p>11 A. Yes.</p> <p>12 Q. And Mr. Browne took you to this table. And if</p> <p>13 we go to the year 1999, that was the lowest</p> <p>14 period for the deficit since, during the whole</p> <p>15 period from 1992, correct, at 22.1 million?</p> <p>16 A. That's correct.</p> <p>17 Q. Correct. And in your evidence, at page 25 it</p> <p>18 is currently forecast for 2004 to be 41. 6</p> <p>19 million, correct?</p> <p>20 A. That's correct.</p> <p>21 Q. So, the deficit has not quite doubled, but</p> <p>22 we're not very far off between 1999 and 2004</p> <p>23 as forecasted, correct?</p> <p>24 A. That's correct.</p> <p>25 Q. Now, if I take you to page 3 of 14 of your</p>

Page 125	Page 126
<p>1 KELLY, Q.C.:</p> <p>2 paper, here you point out--that's fine there,</p> <p>3 Mr. O'Reilly--in the middle of the screen of</p> <p>4 there, "Newfoundland Power pays Hydro</p> <p>5 approximately 19 percent more than the cost of</p> <p>6 service as a cross subsidy to fund the rural</p> <p>7 deficit". So, that's the current burden that</p> <p>8 is being passed then to fund this rural</p> <p>9 deficit to Newfoundland Power's customers?</p> <p>10 A. That's correct.</p> <p>11 Q. So, it's approximately almost one dollar in</p> <p>12 five. Now, if I take you next to NP 56, we</p> <p>13 asked for a project of the rural deficit out</p> <p>14 to 2007 and this is the answer which Hydro has</p> <p>15 provided. And in 2004, you show 41 million</p> <p>16 which would be, in fact, about 41.6 as per the</p> <p>17 evidence. And then you show in 2005, the same</p> <p>18 41 number and I'm not quite sure whether</p> <p>19 that's intended to reflect a reduction or</p> <p>20 simply holding the status quo. Can you</p> <p>21 comment on that or are you able to answer</p> <p>22 that?</p> <p>23 A. It could be something attributable to rounding</p> <p>24 because 42 goes to 44 from 2003 to 2007. So,</p> <p>25 you're not getting -</p>	<p>1 Q. There's no significant reduction -</p> <p>2 A. I don't attribute anything much to that, I</p> <p>3 mean, give you an explanation for -</p> <p>4 Q. Right, okay. I just wanted to check that</p> <p>5 point. So, that by 2007 the deficit will have</p> <p>6 continued to grow to approximately 44 million</p> <p>7 dollars. Now, if you look at the split</p> <p>8 between the island interconnected and the</p> <p>9 isolated, the isolated remains relatively</p> <p>10 constant over that period where the island</p> <p>11 interconnected grows from 19 million to 22</p> <p>12 million. Can you help us understand why that</p> <p>13 would be the case?</p> <p>14 A. Why the island interconnected is growing -</p> <p>15 Q. Yes.</p> <p>16 A. That would be attributable, that would reflect</p> <p>17 in the island interconnected to the cost of--</p> <p>18 the rates that are being applied don't cover</p> <p>19 the cost of service and that attributes--</p> <p>20 that's where you're getting the increases in</p> <p>21 the rural deficit for the island</p> <p>22 interconnected. But -</p> <p>23 Q. In other words, you're not--sorry.</p> <p>24 A. - the--I'm struck--first of all, you have to</p> <p>25 go back to 2 of 14 in the evidence that you</p>
Page 127	Page 128
<p>1 separated, submitted this morning, in a</p> <p>2 calculation of the rural deficit, you talked</p> <p>3 of the doubling figures, the low point in '95</p> <p>4 and I think you're attributing all this to</p> <p>5 cost incurred in running the system and that's</p> <p>6 not the case. A lot of the changes in those</p> <p>7 numbers relate to assignment of costs arising</p> <p>8 from the cost of service study and Board</p> <p>9 decisions. And the other thing is the change</p> <p>10 in the rural deficit, another big factor was</p> <p>11 the interconnection of the GNP which</p> <p>12 transferred that cost of the isolated system</p> <p>13 to the rural interconnected system. So,</p> <p>14 you've got to understand what you're, you</p> <p>15 know, when you review the costs, just don't go</p> <p>16 by the numbers in two columns here. There are</p> <p>17 other events that are impinging on what is</p> <p>18 producing the dollar figures. Now, going</p> <p>19 forward, I just wanted to say -</p> <p>20 Q. Just before you leave that point though, Mr.</p> <p>21 Wells, the numbers in the column row do</p> <p>22 represent the amount that is transferred in</p> <p>23 cross-subsidization, is it not?</p> <p>24 A. Oh yes.</p> <p>25 Q. Exactly, okay, because you didn't want to -</p>	<p>1 A. But there are different reasons.</p> <p>2 Q. I understand that.</p> <p>3 A. Okay.</p> <p>4 Q. Now, just come back to the question which I</p> <p>5 was posing, the growth in the island</p> <p>6 interconnected.</p> <p>7 A. Yes, can you drop that screen up a bit, so we</p> <p>8 can read the notes that explain all this?</p> <p>9 Q. Because I thought I understood from your</p> <p>10 answer that what you were saying was that the</p> <p>11 revenue which you were getting on this Island</p> <p>12 Interconnected system was falling further</p> <p>13 behind, in essence. Is that it in a nutshell?</p> <p>14 A. Yes, because you have two columns of figures.</p> <p>15 You have your costs and your revenue and if</p> <p>16 they both go up by inflation, the gap between</p> <p>17 the costs and the revenue will widen.</p> <p>18 Q. Okay.</p> <p>19 A. You know, it's inevitable.</p> <p>20 Q. Now if we go to your--in your evidence, page</p> <p>21 26, one of the items that you discuss is the</p> <p>22 interconnection with L'Anse-au-Loup to Red</p> <p>23 Bay, and I want to focus on this one as an</p> <p>24 example, as opposed to trying to simply take</p> <p>25 something out of this simply in and of itself,</p>

Page 129	Page 130
<p>1 KELLY, Q.C.:</p> <p>2 but I want to work through the issue with you.</p> <p>3 And you point out at line four that "in 1995,</p> <p>4 Hydro contracted with Hydro Quebec for the</p> <p>5 purchase of secondary energy on the system</p> <p>6 from L'Anse-au-Loup to Red Bay."</p> <p>7 A. That's correct.</p> <p>8 Q. Okay. And in a thumbnail answer, so we don't</p> <p>9 spend too much time on it, just explain to the</p> <p>10 Board now how that L'Anse-au-Loup process</p> <p>11 works.</p> <p>12 A. Well, we buy secondary energy from Hydro</p> <p>13 Quebec and it supplies the requirements from</p> <p>14 L'Anse-au-Loup to Red Bay, which had</p> <p>15 previously been supplied by diesel, and that</p> <p>16 contract is ongoing. Is that -</p> <p>17 Q. Yes.</p> <p>18 A. Yes.</p> <p>19 Q. Okay. Now can we go next to NP-55, okay, and</p> <p>20 if you'd come down to line 12 in the answer,</p> <p>21 you indicated there that the estimated savings</p> <p>22 to Hydro for the 2004 test year as a result of</p> <p>23 the contract are approximately 1.4 million</p> <p>24 dollars?</p> <p>25 A. Yes, that's one of the answers.</p>	<p>1 Q. That was given.</p> <p>2 A. Yes.</p> <p>3 Q. And we then asked for a further breakdown of</p> <p>4 that number, and if I--can I take you to NP-</p> <p>5 211? I'll give you a chance to read down</p> <p>6 through that a little bit, if you haven't read</p> <p>7 it.</p> <p>8 A. Yes.</p> <p>9 Q. And I'll take you down to line 26 to 28, get</p> <p>10 Mr. O'Reilly to scroll up there a bit. The</p> <p>11 1.4 million is the difference between the</p> <p>12 estimated fuel cost for diesel-only generation</p> <p>13 and the forecast cost of supply as you have</p> <p>14 the arrangement with Hydro Quebec. So what</p> <p>15 you're measuring with that savings to Hydro is</p> <p>16 the difference in fuel costs, correct?</p> <p>17 A. That's correct.</p> <p>18 Q. Okay. Now do you view that as a reasonable</p> <p>19 way to determining the benefits of that</p> <p>20 contract to customers that pay the rural</p> <p>21 deficit, simply the difference in the fuel</p> <p>22 costs?</p> <p>23 A. The customers that pay the rural deficit?</p> <p>24 Q. Right. In other words, Newfoundland Power's</p> <p>25 customers and -</p>
Page 131	Page 132
<p>1 A. Yes.</p> <p>2 Q. - and the Labrador Interconnected.</p> <p>3 A. Well, just my understanding of the information</p> <p>4 supplied there is that had we not entered into</p> <p>5 the contract with Hydro Quebec, we would have</p> <p>6 incurred, based on the assumptions for the</p> <p>7 consumption of fuel, another 1.4 million</p> <p>8 dollars that would have been added to the</p> <p>9 rural deficit and Newfoundland Power customers</p> <p>10 would be contributing to that.</p> <p>11 Q. Okay. So we'd have 1.4 million in extra costs</p> <p>12 for -</p> <p>13 A. We could have had.</p> <p>14 Q. - that you could have had if Hydro was running</p> <p>15 the diesel system?</p> <p>16 A. Yes.</p> <p>17 Q. Now if I get you to go next, follow along on</p> <p>18 this, to the 2004 test year deficit, and you</p> <p>19 can find this in Exhibit RDG-1, which is a</p> <p>20 revision, at page 3 of 107. There we go. Mr.</p> <p>21 O'Reilly is very quick. And if you come</p> <p>22 across the L'Anse-au-Loup line, you'll see -</p> <p>23 A. Is that one of the papers you put out this</p> <p>24 morning?</p> <p>25 Q. No, this is one still on the screen there.</p>	<p>1 A. Yes, okay.</p> <p>2 Q. Okay. You come down to line nine on the</p> <p>3 screen there.</p> <p>4 A. Yes.</p> <p>5 Q. Okay. You see that. Line nine shows that</p> <p>6 there are revenues of 1.496 and costs of 2.745</p> <p>7 for a deficit in 2004 of 1.249, okay.</p> <p>8 A. Right.</p> <p>9 Q. Revenue to cost ratio of 54 -</p> <p>10 A. Correct.</p> <p>11 Q. - .54 or 54 percent.</p> <p>12 A. Yes.</p> <p>13 Q. Now one of the results of shifting to this</p> <p>14 arrangement is that the L'Anse-au-Loup people</p> <p>15 are now paying, instead of the isolated diesel</p> <p>16 system rates, they're paying the rates</p> <p>17 approved for Newfoundland Power, correct?</p> <p>18 A. That's correct.</p> <p>19 Q. Okay. Now so, some of the savings in fuel are</p> <p>20 in fact being offset by reduced revenue to</p> <p>21 Hydro as a result of the rates being reduced</p> <p>22 from the diesel rates to the Newfoundland</p> <p>23 Power rates, correct?</p> <p>24 A. That's correct.</p> <p>25 Q. So the savings is not 1.4 million. It would</p>

Page 133	Page 134
<p>1 KELLY, Q.C.:</p> <p>2 be less the reduction in revenue to start off</p> <p>3 with. And if we go to NP-209 from the 2001</p> <p>4 hearing, this is the one we just had a look at</p> <p>5 or just put in, which is Item B and we go to</p> <p>6 the answer, there you go.</p> <p>7 A. That's NP--can I just see the top of that</p> <p>8 again? Thank you. 209, right?</p> <p>9 Q. Yes, and Mr. O'Reilly has it on the screen</p> <p>10 there now.</p> <p>11 A. With my eyes, more comfort here.</p> <p>12 Q. The paper is easier.</p> <p>13 A. If I get the right sheet.</p> <p>14 Q. And so even as of 2002, that revenue reduction</p> <p>15 to Hydro was some \$423,000. It'd be something</p> <p>16 bigger than that by 2004, correct?</p> <p>17 A. Yes.</p> <p>18 Q. So that the extra fuel that is--or the savings</p> <p>19 in fuel is in part offset by a reduction in</p> <p>20 revenue?</p> <p>21 A. That's correct, when the rates changed.</p> <p>22 Q. Right. Now the next point that I wanted to</p> <p>23 take you to on this L'Anse-au-Loup one is if</p> <p>24 we--we looked at NP-211, which was your</p> <p>25 estimate, and that was based on 16, 810</p>	<p>1 megawatt hours. Go back to that and have a</p> <p>2 look.</p> <p>3 A. Yes.</p> <p>4 Q. You see that?</p> <p>5 A. Yes, 16810, right.</p> <p>6 Q. Now if we go to NP-121 from the 2001 GRA, and</p> <p>7 we go to the line that shows what the</p> <p>8 production was in 1996, we'll have to find</p> <p>9 that for--there we go. The number that you</p> <p>10 come up with is 9,657?</p> <p>11 A. That's correct.</p> <p>12 Q. And so the growth on the L'Anse-au-Loup system</p> <p>13 has gone from 1996, from 9,000 megawatt hours,</p> <p>14 9.6, all the way up to the number which we had</p> <p>15 a moment ago.</p> <p>16 A. 16810.</p> <p>17 Q. 16,810, a 75 percent increase, driven by the</p> <p>18 fact that the rates are lower, correct?</p> <p>19 A. That's an assumption, but it's not</p> <p>20 unreasonable.</p> <p>21 Q. It's not an unreasonable assumption. So that</p> <p>22 the real savings on the system, because we are</p> <p>23 only capturing 54 percent, by the time we</p> <p>24 factor in the revenue reduction and the</p> <p>25 increase in growth on the system, the real</p>
Page 135	Page 136
<p>1 savings are much less looked at in an overall</p> <p>2 sense. Would you agree with that?</p> <p>3 A. Well, I now understand the point that you're</p> <p>4 making. To that extent, I agree.</p> <p>5 Q. Okay. Now if that is the case, and I think</p> <p>6 we're in agreement, is it time to do something</p> <p>7 with that rate structure that encourages that</p> <p>8 type of growth on a Rural Isolated system like</p> <p>9 that, that then translates to a cost in the</p> <p>10 rural deficit? In other words, should we have</p> <p>11 people on that L'Anse-au-Loup system picking</p> <p>12 up a bigger share of that system cost?</p> <p>13 A. Well, that's a question for the Board. When</p> <p>14 the L'Anse-au-Loup issue came up, when there</p> <p>15 was the opportunity to buy the secondary</p> <p>16 energy from Quebec, I think it was--now I had</p> <p>17 just come with Hydro around that time, and so</p> <p>18 it was a topical issue, but to me it was</p> <p>19 topical. I wasn't--I was just there. And I</p> <p>20 think that the Hydro position was that the</p> <p>21 rates that they had proposed at the time were</p> <p>22 not the same as the Island Interconnected</p> <p>23 rates, and there was a bit of a fuss in the</p> <p>24 area, and I think the Board, PUB, met in</p> <p>25 L'Anse-au-Loup and as a result of the hearing</p>	<p>1 into the issue, the Board directed that the</p> <p>2 people on that system were to have the benefit</p> <p>3 of Island Interconnected rates, which was not</p> <p>4 Newfoundland Hydro's position. And the</p> <p>5 concern that I was told at the time, when I</p> <p>6 said "well, what does all that mean?" they</p> <p>7 said if these people, the consumers there,</p> <p>8 were put on at Island Interconnected rates and</p> <p>9 they didn't have the diesel system in their</p> <p>10 minds to depend on, that they would take</p> <p>11 advantage of the situation and the demand</p> <p>12 would increase. And that was what I was told</p> <p>13 in 1996, say January of 1996 was the earliest</p> <p>14 opportunity to hear about it, and that, in</p> <p>15 fact, has happened. As the Hydro</p> <p>16 representatives at the time predicted that if</p> <p>17 they--the lower rates, you could predict an</p> <p>18 increased demand on that system, and that</p> <p>19 demand has increased. No question of it. But</p> <p>20 it was by order of the Board and the</p> <p>21 representations that were made to the Board</p> <p>22 back in 1995 or 6.</p> <p>23 Q. And what I'm wondering is do you think on--not</p> <p>24 simply on this issue, but on the--just as an</p> <p>25 example of the rural deficit issue, that with</p>

Page 137	Page 138
<p>1 KELLY, Q.C.:</p> <p>2 the growth that we are seeing in this rural</p> <p>3 deficit and the cross-subsidization costs that</p> <p>4 is coming as a result of it, that we are at</p> <p>5 the stage where a serious effort needs to be</p> <p>6 made to look at this rural deficit issue as a</p> <p>7 whole?</p> <p>8 A. Well, Mr. Kelly, the Board, and I'm aware of</p> <p>9 that, the Board has been very much concerned</p> <p>10 about the issue of the rural deficit</p> <p>11 throughout the 90s and had at least two</p> <p>12 studies done, and we've been put to the test</p> <p>13 as Hydro to deal with the issue of costs on</p> <p>14 the rural system, and we've--as explained in</p> <p>15 the evidence during our last rate application</p> <p>16 and its internal. I refer to it in my</p> <p>17 evidence. It's referred to in the document on</p> <p>18 it, and it's referred to in Mr. Martin's</p> <p>19 evidence, the efforts that we've taken to try</p> <p>20 to constrain the costs on the rural deficit.</p> <p>21 But it is increasing and it's going to</p> <p>22 increase, and this is one just discreet area</p> <p>23 of that whole issue, the L'Anse-au-Loup to Red</p> <p>24 Bay, and now I have met over the time</p> <p>25 periodically with the residents in that area</p>	<p>1 and their associations, like development</p> <p>2 associations, and they are of a view that they</p> <p>3 want the system. Because we warned people</p> <p>4 about there's only so much power we may get</p> <p>5 from Lac Robertson in that secondary power</p> <p>6 contract with Quebec, and that if we run</p> <p>7 beyond it, we're going to have to turn back</p> <p>8 all the diesels, and one of the issues that we</p> <p>9 had, I think in '96, with respect to revenue</p> <p>10 requirement, was that if the people in that</p> <p>11 area were only paying the rates, we still had,</p> <p>12 while supplying the power and buying it from</p> <p>13 Quebec, I mean, we've still maintained that</p> <p>14 diesel system, and that's our backup, because</p> <p>15 we're the first to take the hit if there's a</p> <p>16 problem with the Quebec power on our system.</p> <p>17 So there is an issue in total of the costs of</p> <p>18 the system undoubtedly and these costs are</p> <p>19 going up, but it is--I don't know if you're</p> <p>20 asking me that Hydro should take some action</p> <p>21 with respect to this or that there has to be</p> <p>22 an issue or--the only authority that can deal</p> <p>23 with this issue and these circumstances would</p> <p>24 be the Public Utilities Board.</p> <p>25 Q. Can I take you just back to NP-11--NP-211, for</p>
Page 139	Page 140
<p>1 a moment, 2003, just to pick up a point that</p> <p>2 you touched on a moment ago in the answer you</p> <p>3 just gave. You see there at line 11, the</p> <p>4 diesel generation?</p> <p>5 A. Yes.</p> <p>6 Q. And you made the reference that there's a</p> <p>7 finite limit of the purchases from Hydro</p> <p>8 Quebec, and can I get you to just elaborate on</p> <p>9 that, and in particular, in doing so, can you</p> <p>10 answer this question: do you expect the diesel</p> <p>11 generation requirements over the next few</p> <p>12 years to increase, keeping in mind the growth</p> <p>13 which is taking place on that system?</p> <p>14 A. I really am not the one that--you know, your</p> <p>15 question may be quite legitimate. You're</p> <p>16 going to have to ask Mr. Martin on that</p> <p>17 because what you see there is the use of the</p> <p>18 diesels intermittently for backup situations,</p> <p>19 when they come on stream. I don't have the</p> <p>20 information with me or in my head as to where</p> <p>21 we are going to end up in two or three years</p> <p>22 from now with respect to the supplies from</p> <p>23 Quebec, but I know that we're having</p> <p>24 discussions with Hydro Quebec and we're</p> <p>25 getting some relief or we're about to get some</p>	<p>1 relief with respect to trouble on their</p> <p>2 system. We're the first line. They'll take</p> <p>3 us out before they deal with their own issues</p> <p>4 on their side of the border, and we're working</p> <p>5 with them on that, and I am aware that--and</p> <p>6 other witnesses can give you the detail of</p> <p>7 that. So I don't--there is a point though</p> <p>8 that if this demand in the L'Anse-au-Loup</p> <p>9 system continues to increase at the rate it</p> <p>10 has been increasing, then either Hydro Quebec</p> <p>11 is going to have more power available to us as</p> <p>12 secondary power or we're going to have to come</p> <p>13 up with something to meet that requirement.</p> <p>14 Q. You have to go back to more diesel generation?</p> <p>15 A. That or some other alternative, which is as</p> <p>16 we've stated in our evidence on the rural</p> <p>17 deficit and the isolated diesel systems, up to</p> <p>18 now the diesel is the economic preference.</p> <p>19 There have been no alternatives that we could</p> <p>20 get a better cost result than the diesel.</p> <p>21 Maybe we're going to have to look at sub-</p> <p>22 optimal development of some resource in the</p> <p>23 area, like a Hydro resource. There's not a</p> <p>24 good match. This is--our systems planning</p> <p>25 group has reviewed this extensively because</p>

Page 141	Page 142
<p>1 MR. WELLS:</p> <p>2 there's constant pressure on government, and I</p> <p>3 get a lot of representation on this from</p> <p>4 residents in the Labrador coast area.</p> <p>5 I was up there in June and made a</p> <p>6 presentation to them, pointed out the fact</p> <p>7 that the level of subsidy in the households up</p> <p>8 there, you know, was \$4600 going into your</p> <p>9 house, and you're complaining about your cost</p> <p>10 on top of that, and they all thought that was</p> <p>11 wonderful and said "we want--we don't want</p> <p>12 diesels any more. We just want to be hooked</p> <p>13 up to a supply. So hook us up to Goose Bay."</p> <p>14 I pointed out, I had the homework done on that</p> <p>15 by our systems planning people, it would cost</p> <p>16 \$120 million, and that given the total number</p> <p>17 of residents, they wouldn't pay it off ever,</p> <p>18 and they're not paying the cost now. That</p> <p>19 doesn't deter them.</p> <p>20 There are very strong demands, as the</p> <p>21 panel will find out if you go to Labrador</p> <p>22 during this proceeding, not only from L'Anse-</p> <p>23 au-Loup to Red Bay but the residents now north</p> <p>24 from Red Bay to Cartwright and now that they</p> <p>25 have a road, somehow Newfoundlanders associate</p>	<p>1 road with power lines and they're looking--</p> <p>2 they don't want the diesel system. They want</p> <p>3 all the amenities of a fully-fledged system,</p> <p>4 and they--and I tell you, I have a big screen</p> <p>5 in the room when I made a presentation. You</p> <p>6 got yellow figures on a blue background. And</p> <p>7 that didn't deter them whatsoever, that</p> <p>8 there's \$46-4700 subsidy to a household on</p> <p>9 average. And oddly enough, if I made the</p> <p>10 similar presentation--this is a vignette. I</p> <p>11 was just sharing this information with our</p> <p>12 employees in rural Newfoundland, operating the</p> <p>13 rural system, and I showed the \$800 subsidy on</p> <p>14 the Rural Interconnected, as we now define it,</p> <p>15 and the \$4600 subsidy for the isolated diesel</p> <p>16 system, and people in the room said, "I knew</p> <p>17 we were getting screwed. We should be getting</p> <p>18 that other subsidy."</p> <p>19 Q. Points out the difficulty of dealing with it,</p> <p>20 doesn't it?</p> <p>21 (12:45 p.m.)</p> <p>22 CHAIRMAN:</p> <p>23 Q. Given that it's a vignette, is that \$120</p> <p>24 million, does that include just south of</p> <p>25 Groswater Bay to Red Bay or is it north?</p>
Page 143	Page 144
<p>1 A. Yes, the line -</p> <p>2 Q. 120 million.</p> <p>3 A. If I step from the mike, I'll show you.</p> <p>4 Q. I'm sorry, Mr. Kelly.</p> <p>5 KELLY, Q.C.:</p> <p>6 Q. No, by all means, Mr. Chairman.</p> <p>7 A. If we ran a line out of Goose Bay down here to</p> <p>8 pick up in Cartwright, come down this way.</p> <p>9 CHAIRMAN:</p> <p>10 Q. Okay.</p> <p>11 A. We've done a preliminary projection, it's</p> <p>12 roughly the cost of such a line would be \$120</p> <p>13 million, and there may be some issues with</p> <p>14 respect to the capacity of the line from</p> <p>15 Churchill down to Goose Bay. So I mean, the</p> <p>16 point being that the numbers and the issues,</p> <p>17 in terms of the population that can sustain</p> <p>18 it, you know, there's no compatibility</p> <p>19 whatsoever. On the other hand, the pressures</p> <p>20 are quite strong and the people in Rigolet</p> <p>21 prevailed. They've made representations to</p> <p>22 government, and we did a study of a line from</p> <p>23 Goose Bay down to Rigolet on the north side of</p> <p>24 Groswater Bay, and it came out to something</p> <p>25 like \$29 million. And if you look at the--</p>	<p>1 it's in the evidence, the number, the load in</p> <p>2 Rigolet, other than you give them the \$29</p> <p>3 million and write it off, they can't pay for</p> <p>4 what they have now.</p> <p>5 So there are enormous pressures though in</p> <p>6 southern Labrador, because our evidence also</p> <p>7 indicates there's a growth there since 1998 of</p> <p>8 something like four percent. It's in our</p> <p>9 summary on the rural deficit, that the growth</p> <p>10 rate on the Labrador Interconnected--or the</p> <p>11 Labrador isolated system is something like 4.2</p> <p>12 percent a year or higher. And then we're</p> <p>13 looking at most of that is just the isolated</p> <p>14 diesel, not the interconnection, which is even</p> <p>15 higher, you know.</p> <p>16 Q. Apologize, Mr. Kelly.</p> <p>17 A. I've sort of departed from wherever you were,</p> <p>18 Mr. Kelly.</p> <p>19 Q. Go ahead. I don't do that very often.</p> <p>20 KELLY, Q.C.:</p> <p>21 Q. No, that's fine. I just want to close out</p> <p>22 this discussion of the L'Anse-au-Loup system</p> <p>23 with this question, Mr. Wells. We looked</p> <p>24 earlier from the cost of service study for</p> <p>25 2004, at the deficit for the L'Anse-au-Loup</p>

Page 145

Page 146

1 KELLY, Q.C.:

2 system at 1.249 million. We had that from
3 RDG-1. And if you go to NP-36 from the 2001
4 hearing, and you go to the line that shows you
5 the deficit for L'Anse-au-Loup, you'll see
6 that in 19--at that point in time, it was
7 1,062,000. So it has increased for 1999 to
8 projected 2004 by almost \$200,000. So the
9 deficit on that system continues to grow as
10 you've explained and the magnitude, over that
11 short period of time, is \$200,000, agreed, in
12 round figures?

13 A. Yes, the other thing, in our projections for--
14 well, from '99 to 2002, I think in our
15 projections somewhere in this piece, that the
16 revenue to cost coverage that are in all those
17 tables to which you refer, we're about 54
18 percent, yes.

19 Q. Okay. And so we've had a \$200,000 projection
20 or, sorry, \$200,000 increase in the deficit
21 during that period of time. Now I want to
22 turn on the deficit issue to another series of
23 questions, just to probe this a little bit
24 further. Now there are areas on the isolated
25 diesel system where, from time to time, a

1 large general service customer requires a load
2 that means that the generation capacity on the
3 system has got to be increased, and you've had
4 a couple of examples of that over the last
5 couple of years. And in those circumstances
6 where you had a generation plant addition for
7 the benefit of a particular customer, does
8 that customer have to pay anything for the
9 cost of that plant addition?

10 A. No, other than something related to the hook
11 up, but you're talking about the additional
12 generation capacity -

13 Q. Right.

14 A. - is not directly charged to that customer.

15 Q. Right. So if an expansion has got to go in to
16 serve a fish plant in a diesel-generated
17 community, for example, then that cost is
18 shifted to the rural deficit?

19 A. Well, the cost for that system is incorporated
20 as the costs for the Island Interconnected
21 system. We don't have the practice on the
22 marginal generation costs going against the
23 last customer.

24 Q. Okay.

25 A. It's averaged in, yes.

Page 147

Page 148

1 Q. Now if we go to NP-50, there's been a couple
2 of examples that we've talked about. One is
3 in Charlottetown and the other is in Little
4 Bay Islands.

5 A. Yes.

6 Q. And let's just deal with Charlottetown first,
7 where the capital cost to increase the
8 capacity was 1.587 million?

9 A. That's correct.

10 Q. Could you just explain that briefly to the
11 Board, as to what was required here?

12 A. I'll attempt it, because the basis issue was
13 that we had to add an additional diesel engine
14 generator to be able to fulfil the demand that
15 was created, in addition to what was in
16 Charlottetown, and there was other associated
17 things. Now Mr. Martin can tell you the
18 detail, whether it's transformers. But what
19 happened was that capital cost, which we took
20 to the Board, was for additional generation,
21 which was diesel generation and the support
22 systems to enable that particular plant to
23 meet then the total demands of the community,
24 which had increased from the results of having
25 a fish plant added.

1 Q. Okay. And in the second example, the capital
2 cost to increase the capacity at Little Bay
3 Islands was 57,000, a more modest number, and
4 that was of the same type of -

5 A. Same principles involved.

6 Q. Same principle, right. Can we go to NP-51 and
7 just look at the costs associated, in terms of
8 the impact on the deficit, and if we look at
9 the Charlottetown example first, we have the
10 annual impact on the deficit of being almost
11 \$170,000 for 2004, in other words, 72,000 for
12 depreciation and 96,000 for the financing
13 costs?

14 A. Yes.

15 Q. So this addition in Charlottetown drives up
16 the deficit by 170,000 which then has to be
17 cross-subsidized, correct?

18 A. That's correct.

19 Q. Okay. And we could go through the same
20 analysis for Little Bay Islands. The numbers
21 are much smaller. Can I take you next to NP-
22 52? And this is the report on the task force
23 of operational--task force review of
24 operational and financial initiatives on the
25 isolated diesel system, and there's a section

Page 149	Page 150
<p>1 KELLY, Q.C.:</p> <p>2 in there which is Section 5.3.5, if you go</p> <p>3 over to page 5.14. Page 5.14 is the page we</p> <p>4 need. I think we're going the wrong way.</p> <p>5 5.3.5 is the section heading, and it's page</p> <p>6 number 5.14. Going backwards again. Sorry,</p> <p>7 5.14, 5.14, yes.</p> <p>8 MR. O'REILLY:</p> <p>9 Q. Just before page 5.2?</p> <p>10 HUTCHINGS, Q.C.:</p> <p>11 Q. No, after page 5.13.</p> <p>12 KELLY, Q.C.:</p> <p>13 Q. I think you just went past it. 5.3.5, just</p> <p>14 back up a small bit. There you go. Okay.</p> <p>15 And under that section, Mr. Wells, it says,</p> <p>16 "capital cost recovery, a new policy is</p> <p>17 required to cover the recovery of the capital</p> <p>18 cost of installing generating equipment at the</p> <p>19 request of a major general service customer.</p> <p>20 The policy should have the same underlying</p> <p>21 philosophies and principles as the</p> <p>22 distribution and service line policy. And</p> <p>23 there's an action list for that for completion</p> <p>24 date late 1994". Now, that, in fact, has not</p> <p>25 been done, has it?</p>	<p>1 A. No, that policy was never put into effect.</p> <p>2 Q. If we go to NP 209.</p> <p>3 MR. O'REILLY:</p> <p>4 Q. For this period?</p> <p>5 KELLY, Q.C.:</p> <p>6 Q. No, 2003. The answer is that the policy has</p> <p>7 not been developed and we asked the follow up</p> <p>8 question which is NP 210 and the answer that</p> <p>9 you provided or Hydro provided is, "in</p> <p>10 reviewing the concept of a contribution in aid</p> <p>11 of generation, Hydro could not resolve the</p> <p>12 difficulty of assigning common generation to</p> <p>13 one customer". And I'm wondering if I can get</p> <p>14 you to comment on that, Mr. Wells, because it</p> <p>15 seems to me what we have here is a situation</p> <p>16 where in 1994 a need to address this issue,</p> <p>17 93, the need to address this issue was</p> <p>18 identified yet no policy has been developed,</p> <p>19 but we can have a situation where the demand</p> <p>20 of one customer in an isolated community can</p> <p>21 materially affect the cross-subsidization</p> <p>22 burden and I'm wondering if I can get you</p> <p>23 comment on that?</p> <p>24 Q. Well, I think the difficulty here is that</p> <p>25 Hydro does not allocate new costs for</p>
Page 151	Page 152
<p>1 generation to customers period. On the island</p> <p>2 interconnected system, if somebody were to</p> <p>3 build, for argument's sake, an entirely new</p> <p>4 fish plant and create a demand, we provide the</p> <p>5 service and the cost are common in the system.</p> <p>6 So, we don't treat existing customers or</p> <p>7 potential customers or additions differently</p> <p>8 with respect to generation and it would be a</p> <p>9 marked departure from what has been understood</p> <p>10 to be the practice if we were to do so because</p> <p>11 we go by average cost. Now, it begs the</p> <p>12 question, let's say on the island</p> <p>13 interconnected system, somebody came along</p> <p>14 with a demand for 1000-be realistic--200 would</p> <p>15 not be unrealistic, a 200 megawatt demand,</p> <p>16 looking for, you know, 1000 gigawatt hours or</p> <p>17 something like that, or 1000 megawatt hours.</p> <p>18 The point being is this, we could have</p> <p>19 something established in the island</p> <p>20 interconnected system that would create a</p> <p>21 significant demand and require the appropriate</p> <p>22 cost to supply it and we do not have a policy,</p> <p>23 I don't mean Hydro, in this jurisdiction, we</p> <p>24 don't look to that additional demand to pay</p> <p>25 the cost of meeting that demand. We average</p>	<p>1 of the costs in. The old theory the ten</p> <p>2 people that buy the first garbage truck and</p> <p>3 when the 11th person comes along and you need</p> <p>4 another one, do 11 people contribute to the</p> <p>5 cost of the second truck or just that 11th</p> <p>6 person. And so, we live in an average cost</p> <p>7 system.</p> <p>8 Q. In the Charlottetown example that we just</p> <p>9 looked at, we saw that that addition to the</p> <p>10 system drove the rural deficit up by</p> <p>11 \$170,000.00.</p> <p>12 A. I agree. We understand, I understand what</p> <p>13 you're -</p> <p>14 Q. My question is, is it, at least, not</p> <p>15 appropriate then that that increase in the</p> <p>16 cost be born either by that service customer</p> <p>17 or alternatively by the people on that</p> <p>18 isolated system. And whether some</p> <p>19 modification of the system is required in</p> <p>20 order to deal with that?</p> <p>21 A. Very good question indeed because that</p> <p>22 particular fish plant in Charlottetown, when</p> <p>23 that came on stream, there had been a</p> <p>24 significant government subsidy to get that</p> <p>25 plant in Charlottetown to develop the local</p>

Page 153	Page 154
<p>1 MR. WELLS:</p> <p>2 economy. And so there was a level of subsidy</p> <p>3 in there and they were talking about that and</p> <p>4 that the benefit would bring some 200 jobs in</p> <p>5 the area. And then all of a sudden we find</p> <p>6 out that we've got to hook it up and it's 1. 5</p> <p>7 million as we talked about, we proceeded to do</p> <p>8 it. Well, I call the Department of Fisheries</p> <p>9 personally and spoke to people and said, when</p> <p>10 you are trying to get economic development in</p> <p>11 an area, you didn't calculate obviously what</p> <p>12 the cost of supplying the plant with</p> <p>13 electricity is going to be and I can tell you</p> <p>14 now, we knew the figure, it's going to be 1. 5</p> <p>15 million. And if you got 2.5 million into it,</p> <p>16 somehow together we've got 4 million into that</p> <p>17 plant. It wasn't a very fruitful conversation</p> <p>18 from that point. And, you know, you have a</p> <p>19 bunch of interacting policies here, you know,</p> <p>20 our electrical policies and how we run systems</p> <p>21 and you have, you know, in that area, issues</p> <p>22 of employment and so, I mean, the fish plant</p> <p>23 that was put in there was put in there on the</p> <p>24 basis of fairly significant subsidies and</p> <p>25 resource supply requirements to try to develop</p>	<p>1 economic activity in that particular area.</p> <p>2 The fact that this was going to increase the</p> <p>3 demand for electricity which also would have a</p> <p>4 cost, I don't think that that was considered</p> <p>5 by various sections of government involved in</p> <p>6 doing that. But again, this is an issue of</p> <p>7 averaging costs in common and it's a fact</p> <p>8 that--and I think that, I'm not familiar with</p> <p>9 it now, that '94/'95 report, but obviously</p> <p>10 within Hydro, you know, we see things that</p> <p>11 happen and demands placed on the system at a</p> <p>12 cost. And we are concerned about the subsidy</p> <p>13 and oddly enough this whole set up is imposed</p> <p>14 upon us, but it seems like most of the</p> <p>15 pressure comes on Hydro to try to reduce the</p> <p>16 cost or do anything we can. And we've been</p> <p>17 working diligently at it, but the costs are</p> <p>18 inevitably going to increase, certainly for</p> <p>19 the isolated diesel systems. I have a</p> <p>20 different view of the interconnected system</p> <p>21 and subsidy.</p> <p>22 Q. And those costs that you're talking about that</p> <p>23 are now cross-subsidized, we saw the number</p> <p>24 will increase to 44 million dollars in the</p> <p>25 next couple of years, those are really a</p>
Page 155	Page 156
<p>1 social cost that government has transferred to</p> <p>2 not only Newfoundland Power's customers, but</p> <p>3 also on a proportionate basis, the Labrador</p> <p>4 interconnected customers. Do you agree with</p> <p>5 that?</p> <p>6 A. That's what is happening, yes.</p> <p>7 Q. Yes, okay. Mr. Chairman, I'm in your hands as</p> <p>8 how you wish me to proceed from here. I'm</p> <p>9 going to move into another area which will</p> <p>10 take some time to develop and I can either</p> <p>11 start into it, I won't finish within 15</p> <p>12 minutes or we can break here, but I'm in your</p> <p>13 hands. I'm prepared to carry on, if you wish.</p> <p>14 CHAIRMAN:</p> <p>15 Q. I'd like to go through to 1:30.</p> <p>16 KELLY, Q.C.:</p> <p>17 Q. That'll be fine. Mr. Wells, I want to turn</p> <p>18 next to talk with you a little bit about the</p> <p>19 status of Hydro and the rate of return issues</p> <p>20 and the question of an investor owned utility.</p> <p>21 In P.U 7, the Board concluded that Hydro's</p> <p>22 request to be treated as an investor owned</p> <p>23 utility was not justified based on its</p> <p>24 operating characteristics. And it indicated</p> <p>25 that the request was premature in the absence</p>	<p>1 of a sound plan by Hydro as to how it would</p> <p>2 achieve the financial target similar to an</p> <p>3 investor owned utility and what the impact</p> <p>4 would be on its customers. Has Hydro prepared</p> <p>5 any kind of written plan which will indicate</p> <p>6 the impact on Hydro's customers?</p> <p>7 A. No, we have not.</p> <p>8 Q. And have you prepared any kind of written</p> <p>9 analysis on that issue, Hydro?</p> <p>10 A. As to the impact on Hydro's customers?</p> <p>11 Q. Yes.</p> <p>12 A. No, and I'm unaware that we were expected to.</p> <p>13 Q. Okay. Now, when we looked at the rural</p> <p>14 deficit a few moments ago, we saw that</p> <p>15 continuing to grow and we talked about the 44</p> <p>16 million dollars. And in the middle of this</p> <p>17 year, we saw that government in its direction</p> <p>18 to the Board has indicated certain</p> <p>19 preferential rates should continue, in effect?</p> <p>20 A. That's correct.</p> <p>21 Q. That's correct. Has Hydro, itself, prepared</p> <p>22 any financial plan, either alone or in</p> <p>23 combination with government or any department</p> <p>24 of government to address the rural deficit and</p> <p>25 reduce it?</p>

Page 157	Page 158
<p>1 MR. WELLS:</p> <p>2 A. No. What we have done is, and it's attached,</p> <p>3 filed with the corporate evidence, is directed</p> <p>4 by the Board, we have, since the last rate</p> <p>5 hearing, the Board wanted to see an</p> <p>6 evidentiary dialogue--that's not the right</p> <p>7 word, but it's close enough--on this matter,</p> <p>8 an evidentiary record, yeah. And so we had,</p> <p>9 as we have indicated in the evidence, the</p> <p>10 various briefings with government, the</p> <p>11 Planning and Priorities Committee in Cabinet,</p> <p>12 the Minister of Mines and Energy and all</p> <p>13 culminated again in doing up the paper that</p> <p>14 submitted here and attached to the evidence</p> <p>15 with respect to the rural deficit and made</p> <p>16 that known to government and reviewed it with</p> <p>17 the appropriate ministers, as I've indicated.</p> <p>18 And the response from government, result of</p> <p>19 the responses and Mr. Kelly has indicated, the</p> <p>20 government issued directions with respect to</p> <p>21 rural deficit, but in fulfilling our</p> <p>22 obligations in this regard, I mean, we have</p> <p>23 made government fully aware of the details and</p> <p>24 the issues related to the rural deficit, the</p> <p>25 opinion of the Commissioners at the last</p>	<p>1 hearing as expressed in P.U 7. And I think</p> <p>2 that, well, I would hope that the</p> <p>3 Commissioners don't find anything missing in</p> <p>4 that report with respect to the rural deficit</p> <p>5 issue that we put into government in March and</p> <p>6 that's the culmination of our dealings with</p> <p>7 government starting with the briefings</p> <p>8 following the release, as soon as we had P.U 7</p> <p>9 finalized, we were involved with briefings of</p> <p>10 government and the Minister of Mines and</p> <p>11 Energy as to the results of the Order</p> <p>12 including that related to the rural deficit,</p> <p>13 provided all the information on the rural</p> <p>14 deficit. And then laterally, beyond the</p> <p>15 letters that were written as well, we put in</p> <p>16 this discussion paper for them and that is the</p> <p>17 result.</p> <p>18 (1:15 p.m.)</p> <p>19 Q. Can I take you to page 9 of 14 of your</p> <p>20 discussion paper under "future funding</p> <p>21 options", if we could just scroll, there we</p> <p>22 go. Now, you point out to the Minister in</p> <p>23 this particular discussion paper that the</p> <p>24 Board outlined the following options regarding</p> <p>25 funding of the rural deficit. And you laid</p>
Page 159	Page 160
<p>1 them out, reinstatement of the government</p> <p>2 subsidy, continuing cross-subsidization, fully</p> <p>3 cost recovery or some combination of the above</p> <p>4 and you pointed out that in the 2002 Order,</p> <p>5 the Board again, reiterated these options--and</p> <p>6 I'll get Mr. O'Reilly to scroll to the next</p> <p>7 page--and then there's commentary from the</p> <p>8 Board.</p> <p>9 Now, did you have any meetings with</p> <p>10 government concerning funding the deficit in</p> <p>11 any of the alternative ways--if we could just</p> <p>12 scroll back the page, Mr. O'Reilly, there we</p> <p>13 go--in any of those alternative ways?</p> <p>14 A. There were no--other than that these issues as</p> <p>15 described were, government was made aware and</p> <p>16 in the briefings with respect to options that</p> <p>17 the Board had outlined and they were made</p> <p>18 aware of that, but subsequent to all of that,</p> <p>19 there were no specific meetings where we were</p> <p>20 reviewing any one of those or in combination -</p> <p>21 Q. In other words, after you sent in your report,</p> <p>22 there were no further meetings with government</p> <p>23 to discuss those options.</p> <p>24 A. That's right. Specifically on those options</p> <p>25 to say, well, okay, we'll change something,</p>	<p>1 what is it we're going to change to?</p> <p>2 Q. Right.</p> <p>3 A. We had discussions on what the issues were</p> <p>4 prior to this summary document of March, but</p> <p>5 there were no avenues pursued with government</p> <p>6 with respect to alternatives to the current</p> <p>7 situation.</p> <p>8 Q. And we know -</p> <p>9 A. They did not engage us in any discussion with</p> <p>10 respect to that or any representative of</p> <p>11 government.</p> <p>12 Q. And we know in the middle of the summer that</p> <p>13 the government gave the directive to the</p> <p>14 Board, the effect of which was to continue the</p> <p>15 cross-subsidization practice and, in fact,</p> <p>16 took out certain, or ordered continuation of</p> <p>17 certain preferential rates as well, as we just</p> <p>18 talked about, correct?</p> <p>19 A. That's correct.</p> <p>20 Q. So, Hydro's shareholder government made a</p> <p>21 policy decision to continue with that existing</p> <p>22 methodology, do we agree on that?</p> <p>23 A. That's correct.</p> <p>24 Q. Okay. Now, let me take you next to CA 98 and</p> <p>25 when we go to CA 98, we come to the capital</p>

Page 161	Page 162
<p>1 KELLY, Q.C.:</p> <p>2 structure issue. And if I could just get Mr.</p> <p>3 O'Reilly to scroll it up a small bit more,</p> <p>4 there we go. We have the debt equity ratios</p> <p>5 set out here. Now, Mr. Wells, in P.U 7, the</p> <p>6 Board approved a debt equity ratio of 80/20 as</p> <p>7 a target for Hydro and pointed out that that</p> <p>8 had been the target since the early 1990's, do</p> <p>9 you agree with that?</p> <p>10 A. That's correct.</p> <p>11 Q. And would you agree with me that as of 2002</p> <p>12 and 2003, Hydro is now at, as per the table</p> <p>13 for example in 2003, at a debt ratio of 86 1/2</p> <p>14 percent approximately.</p> <p>15 A. That's correct.</p> <p>16 Q. Okay. So, there has been no movement forward</p> <p>17 in getting to that 80 percent debt ratio, has</p> <p>18 there?</p> <p>19 A. No, because the revenue that we have from our</p> <p>20 last rate hearing have not increased. I mean,</p> <p>21 the rates charged have not increased and the</p> <p>22 additional expenses have come on stream, so</p> <p>23 there's been no improvement here in the debt</p> <p>24 equity ratio.</p> <p>25 Q. Now, when you wrote to the government on March</p>	<p>1 25th which is attached to your evidence, you</p> <p>2 set out a discussion paper dealing with</p> <p>3 capital structure, dividend policy and other</p> <p>4 matters.</p> <p>5 A. That's correct.</p> <p>6 Q. And you wrote Mr. Maynard on March 25th.</p> <p>7 A. That's correct.</p> <p>8 Q. Did you have any response, did you have any</p> <p>9 meetings with Mr. Maynard or other government</p> <p>10 officials over the question of the capital</p> <p>11 structure and dividend policy?</p> <p>12 A. The March 25th letter was intended to</p> <p>13 capsulize again, the issues that we wanted</p> <p>14 clarification from with respect to the rural</p> <p>15 deficit and we'd also brought the government's</p> <p>16 attention after P.U 7 was issued, the comments</p> <p>17 with respect to our capital structure and the</p> <p>18 requirement for dividends and the Board's</p> <p>19 expression and view on matters related to a</p> <p>20 stable dividend policy being helpful. So, all</p> <p>21 this was brought to government, so there had</p> <p>22 been briefings of the Ministers in office at</p> <p>23 time of over that period in Mines and Energy,</p> <p>24 we also had meetings with the Priority and</p> <p>25 Policy Committee of Cabinet. And the intent</p>
Page 163	Page 164
<p>1 of this letter and the discussion paper</p> <p>2 attached to it of March 7th was the end of,</p> <p>3 you know, sort of the line. We were</p> <p>4 recapturing the whole of the issue and putting</p> <p>5 the facts in play, again, for government.</p> <p>6 Q. So, if I can just back up here a little bit,</p> <p>7 we had--the decision of the Board came down in</p> <p>8 June of '02. You had various meetings with</p> <p>9 government including Planning and Priorities</p> <p>10 during the fall of '02, early winter of '03</p> <p>11 and then culminated in this letter to Mr.</p> <p>12 Maynard on March 25, I believe it is. Is that</p> <p>13 -</p> <p>14 A. That's correct.</p> <p>15 Q. That's correct?</p> <p>16 A. Yes.</p> <p>17 Q. Now, then after you sent this letter in, did</p> <p>18 you have a reply?</p> <p>19 A. There's a reply filed.</p> <p>20 Q. IC 134, go there.</p> <p>21 A. That would probably be it. I don't have the</p> <p>22 copy with the -</p> <p>23 Q. Okay, and if we go to the attachment.</p> <p>24 A. There is it, yes.</p> <p>25 Q. There's the attachment. And if we go to the</p>	<p>1 second paragraph, well first of all, in the</p> <p>2 first paragraph, they point out that the</p> <p>3 letters concern Newfoundland and Labrador</p> <p>4 Hydro's dividend payments and the rural</p> <p>5 deficit. Government is considering the</p> <p>6 information you've provided and will advise</p> <p>7 accordingly when decisions have been made.</p> <p>8 Now, after that letter in June 10, did you</p> <p>9 receive anything further from government with</p> <p>10 respect to capital structure and dividend</p> <p>11 policy issue?</p> <p>12 A. No.</p> <p>13 Q. That's the last answer?</p> <p>14 A. That's the last, yes.</p> <p>15 Q. And the answer on the rural deficit issue came</p> <p>16 in the form of the directions to the Board</p> <p>17 from the Lieutenant Governor in Council that</p> <p>18 we talked about earlier?</p> <p>19 A. That's correct.</p> <p>20 Q. Okay. Now, if I take you back to your policy</p> <p>21 paper, in your policy paper to government in</p> <p>22 March, you had proposed a dividend policy of</p> <p>23 50 percent of net operating income to be in</p> <p>24 place for five years?</p> <p>25 A. Yes, we outlined what it would take in terms</p>

<p style="text-align: right;">Page 165</p> <p>1 MR. WELLS:</p> <p>2 of the ratio of the payout to achieve, moving</p> <p>3 towards the 80 debt to capital structure and</p> <p>4 how it would--what would have to be to get to</p> <p>5 that or close to that in terms of the level of</p> <p>6 the dividend payout. So, there was a series</p> <p>7 of cases in that paper that, to advise</p> <p>8 government of what would happen under the</p> <p>9 various parameters that were set, for a 75</p> <p>10 payout or 50 percent payout or at a 25</p> <p>11 percent.</p> <p>12 Q. All right, and -</p> <p>13 A. With certain assumptions.</p> <p>14 Q. Did I not understand it correctly that you</p> <p>15 were recommending a move to a 50 percent</p> <p>16 payout ratio?</p> <p>17 A. Well, our target was that we should move to an</p> <p>18 80/20 debt to equity ratio. And as discussed,</p> <p>19 as the Board had confirmed, as you said</p> <p>20 earlier, back in '92 and, you know, 80 percent</p> <p>21 by our expert witness is the high range, so</p> <p>22 our objective in Hydro and with the Board of</p> <p>23 Directors of Hydro is to get to an 80 percent</p> <p>24 debt to capital structure. To get there,</p> <p>25 assuming, taking the assumptions that we</p>	<p style="text-align: right;">Page 166</p> <p>1 outlined, we could achieve that in a time</p> <p>2 frame dependent on the dividend payout.</p> <p>3 Q. Mr. Wells, can I take you to page 7 of 7 of</p> <p>4 your policy paper.</p> <p>5 A. Yes.</p> <p>6 Q. There you go, if we scroll up a little bit.</p> <p>7 In the last paragraph there, you say, "Hydro</p> <p>8 is suggesting that the current dividend payout</p> <p>9 policy of 75 percent would be replaced by a</p> <p>10 dividend policy of paying out 50 percent of</p> <p>11 net operating income". So, that was a</p> <p>12 concrete proposal by Hydro, was it not?</p> <p>13 A. Yes.</p> <p>14 Q. Okay. "This policy would be fixed for the</p> <p>15 next five years and facilitates movement to</p> <p>16 the proposed debt to capital structure. It</p> <p>17 would also contribute to rate stability and</p> <p>18 predictability. Failure to adhere to such a</p> <p>19 policy could result in similar disallowances</p> <p>20 by the Board, thereby adversely impacting on</p> <p>21 shareholder return". So, you gave that advice</p> <p>22 to government, didn't you?</p> <p>23 A. Yes.</p> <p>24 Q. And government has chosen, to date, not to</p> <p>25 respond with any further direction to Hydro,</p>
<p style="text-align: right;">Page 167</p> <p>1 have they?</p> <p>2 A. That's correct.</p> <p>3 Q. Mr. Chairman, this is probably a good place to</p> <p>4 break?</p> <p>5 CHAIRMAN:</p> <p>6 Q. Thank you, Mr. Kelly, Mr. Wells. I guess, Mr.</p> <p>7 Kelly, we try, if at all possible, to give a</p> <p>8 heads up as to where we're going with cross-</p> <p>9 examination. Do you have any idea as to how</p> <p>10 much longer you might be?</p> <p>11 KELLY, Q.C.:</p> <p>12 Q. I will be probably about two hours on Thursday</p> <p>13 morning and then I will finish.</p> <p>14 CHAIRMAN:</p> <p>15 Q. Thursday morning, okay. Thank you very much.</p> <p>16 We'll adjourn until 9:00 on Thursday morning.</p> <p>17 Upon conclusion at 1:30 p.m.</p>	<p style="text-align: right;">Page 168</p> <p>1 CERTIFICATE</p> <p>2 I, Judy Moss Lauzon, hereby certify that the foregoing is</p> <p>3 a true and correct transcript in the matter of</p> <p>4 Newfoundland and Labrador Hydro's 2003 General Rate</p> <p>5 application for approval of, among other things, its</p> <p>6 rates commencing January, 2004, heard on the 7th day of</p> <p>7 October, A.D., 2003 before the Board of Commissioners of</p> <p>8 Public Utilities, Prince Charles Building, St. John's,</p> <p>9 Newfoundland and Labrador and was transcribed by me to</p> <p>10 the best of my ability by means of a sound apparatus.</p> <p>11 Dated at St. John's, Newfoundland and Labrador</p> <p>12 this 7th day of October, A.D., 2003</p> <p>13 Judy Moss Lauzon</p>